FINANCIAL TIMES

Preparing for Emu
Challenge for pensions management
Page 2

Origin of life
Volcanic stirrings beneath the sea
Technology, Page 12

Trade with China
Rogue elephant or cuddly panda?
Personal views, Page 14

Today's surveys
Venezuela
Bulgaria
Separate section; Pages 25-28

World Business Newspaper http://www.FT.com TUESDAY OCTOBER 21 1997

Fred Hassan
Pharmacia & Upjohn

'Acquisitions tend to be easier than mergers because one side is in control'.
Part seven:
In tomorrow's FT

WORLD NEWS

Ulster Unionists walk out of the Northern Ireland peace talks

The pro-British Ulster Unionists walked out of the Northern Ireland peace talks after a row over the Irish Republic's territorial claim to the region. Unionist leader David Trimble accused Irish negotiators of refusing to amend Dublin's claim ahead of a final settlement. Page 11

US greenhouse gases emissions surged by 3.4 per cent in 1996, the US energy department said. Page 5; US holds key to climate treaty, Page 6

Many of Japan's largest companies – including Sony and Nissan – are preparing to use the European single currency soon after the planned 1999 starting date for Emu. Page 2

Leszek Balcerowicz, architect of Poland's free-market reforms, is set to return as finance minister. Page 4; Editorial Comment, Page 15

Elections in Spain's north-western region of Galicia have brought a triumph for the ruling Popular Party, crushed the opposition Socialists and confirmed the emergence of Galician nationalism. Page 3

France's left-wing government is being pressed to introduce a human rights element into its foreign policy. Page 3

The Bundesbank wants continued efforts by German wage negotiators and the government to combat "unacceptably high" unemployment through *moderate pay rises, job flexibility* and lower taxes. Page 2

Mesut Yilmaz, Turkey's prime minister, promised to privatise the country's state-owned banks by the end of 2000. Page 4

Two Hollywood films about Tibet and its exiled spiritual leader the Dalai Lama – *Seven Years in Tibet* and Disney's *Kundun* - will not be shown in Hong Kong after distributors declined to buy the rights. It raised fears about self-censorship in the territory following its return to *China*. Page 16

China's economy grew rapidly in the first nine months of 1997, but a late slowdown raised fears of a rate cut. Page 8

The White House dismissed Republican allegations that it doctored videotapes of meetings between President Clinton and campaign contributors. Page 5

Slobodan Milosevic, Yugoslavia's president, suffered another blow when one of his closest allies was defeated in Montenegro's presidential elections. Page 4

Israeli prime minister Benjamin Netanyahu is prepared to stop new settlement plans but will insist work already under way continues. Page 6

Japan's trade surplus was up again in September, registering a year-on-year rise of 37 per cent to Y1,065bn ($8.8bn). Page 8

The US embassy in Beijing hopes China will free jailed dissidents ahead of the summit between President Jiang Zemin and President Clinton. Page 8; China's global role, Page 14

BUSINESS NEWS

French partner seeks talks with Siemens on BNFL move

Framatome, the state-owned French nuclear power plant manufacturer, called for talks with Siemens of Germany about its planned $900m merger with British Nuclear Fuels, saying it might have to rethink their 10-year-old partnership. Page 3

SKF of Sweden, the world's main supplier of rolling bearings, is to cut more than 2,000 jobs, almost 5 per cent of its workforce, in a drive to prune costs and boost efficiency. Page 17

Unilever is to strengthen its grip on the global ice cream market by paying $930m to acquire Kebon, Brazil's largest ice cream business, from Philip Morris. Page 16

KPMG and Ernst & Young said they had been in serious talks for only two weeks about merging to create the world's largest accountancy firm with annual revenues of more than $18bn. Page 17; Observer, Page 15

Honda, Japan's third-biggest car company, raised the stakes in the environment race with two new engines offering unprecedented emission reductions and fuel consumption of about 70 miles per gallon. Page 16

Bic, the French lighters, pens and razors group, said it had successfully completed acquisition of the Sheaffer pen company for about $33m. Page 21

London Metal Exchange signalled radical reform in the way it operates in a bid to stop any further fall in the number of its ring dealing members and to reduce market "aberrations". Page 17

Adtranz, the rail transport joint venture between ABB and Daimler Benz, warned of "significant losses" for 1997 following a fourth quarter restructuring charge, and said 3,600 jobs would be cut in Germany and Italy. Page 21

Aceralia, the state-controlled Spanish steel group backed by Arbed of Luxembourg, agreed to buy Aristrain, Spain's top producer of "long" products for construction, in an equity swap worth Pta40bn ($268.4m). Page 21

Japan's recent stock market fall is set to leave the 20 leading Japanese banks registering paper losses on the shares they hold of more than Y2,000bn ($16.6bn). Page 17

Daiwa Europe became the second Japanese investment bank to venture into the UK pub market by backing Avebury Inns, which is to acquire 147 licenced houses from Wolverhampton & Dudley Breweries. Page 17

Promodès, the French retailer, remained upbeat in its hostile takeover attempt for rival Casino, in spite of indications that the majority of Casino's Guichard family shareholders oppose the bid. Page 21

Foster's, the Australian brewer, says it has completed its Asian strategy with a A$78m (US$57m) investment in two Vietnamese breweries. It already has operations in China and India. Page 23

Software group accused of abusing monopoly

Microsoft could face fines of $1m a day

By Louise Kehoe and Nick Denton in San Francisco

The US Justice Department yesterday asked a federal judge to impose fines of $1m a day on Microsoft, claiming the software company had violated terms of a 1995 anti-trust settlement agreement.

Janet Reno, the attorney-general, and Joel Klein, head of the Justice Department anti-trust division, alleged that Microsoft was forcing personal computer manufacturers to license the Microsoft internet browser program by illegally "bundling" the product with Windows 95, the most widely used PC operating system.

"Microsoft is unlawfully taking advantage of its Windows monopoly to protect and extend that monopoly" in violation of the 1995 settlement or "consent decree", they said.

Microsoft said it was confident it was operating within the terms of the consent decree.

"Our product improvements and innovations are entirely to the benefit of consumers, which is what competition laws are there to encourage," the company said.

Combining a browser with an operating system was part of the "natural evolution" of PC technology, the company claimed. The goal was to give PC users access to information – whether that information be stored on the PC, or on other computers on a corporate network or on the internet.

The Justice Department action comes amid growing industry concern that Microsoft aims to extend its power base in PC software to control access to the internet.

At least six state attorneys-general have also launched separate investigations into the company's business practices in recent weeks.

Microsoft is also coming under pressure from consumer groups such as the Consumer Project on Technology, which is associated with Ralph Nader, a long-time campaigner for consumer rights.

In Europe, competition regulators at the European Commission said last week that they, too, were investigating various aspects of Microsoft's business practices, including complaints related to internet access.

The Justice Department contends that Microsoft is illegally "tying" the licensing of operating systems, in which it is the market leader, to the licensing of its Internet Explorer browser program.

Microsoft has 30 per cent of the browser market, behind Netscape, which has approximately 60 per cent. But Microsoft is gaining rapidly on its competitor, according to industry analysts.

"This is a very serious abuse," said Mr Klein. He said Microsoft's actions were designed to undermine Netscape.

Justice Department officials said Microsoft should be fined $1m a day for each day that the company continues the current practice.

The department is seeking an injunction to force Microsoft to stop the alleged violation and to inform consumers who use Windows 95 that they can use any compatible browser, including those from competitors such as Netscape.

At present, PC purchasers can choose to install either the Microsoft or the Netscape browser. Both work with Windows 95, but the Microsoft browser comes free of charge while Netscape charges about $80 for its latest browser software.

Moreover, the next generation of the Windows operating system, due to be released next year, will come with a built-in Microsoft browser.

Separately, the Justice Department is also believed to be scrutinising Microsoft's $150m investment in Apple Computer, in exchange for which the troubled personal computer maker has agreed to guide its customers toward using Microsoft's Internet Explorer software.

Microsoft shares were trading at $131 at midsession yesterday, down $1¼ from Friday's close. The company was scheduled to release its third-quarter earnings statement after the close of trading yesterday.

Netscape Communications shares were up $5¾ at $40⅞ at mid-session yesterday.

ITT hotels agrees to $9.8bn bid from Starwood Lodging

By Richard Tomkins in New York

ITT, the Sheraton hotel company fighting a hostile bid from the Hilton Hotels group, has agreed to be taken over by Starwood Lodging Trust, a small US property company, in a cash-and-stock deal worth $9.8bn.

If it goes ahead, the deal will end ITT's 77-year history as an independent entity and Mr Rand Araskog's 18-year reign as the company's chairman and chief executive.

It will also catapult Starwood Lodging into the position of the world's biggest hotel company in terms of market capitalisation, with some 650 hotels in 70 countries operating under the Sheraton, Westin, Ciga and other names.

Starwood Lodging is a fast-growing real estate investment trust specialising in hotel acquisitions. It has a "paired share" structure, based on its operating companies: a property investment company that pays no corporate income tax, and a property management company that operates the hotels it owns.

Last month Starwood Lodging announced a deal to buy Westin Hotels & Resorts, an up-market US hotel chain, from an investment group for $540m in cash and securities and $1.03bn in assumed debt.

When the Westin acquisition is completed, Starwood Lodging will own or manage 162 hotels in 24 countries. ITT owns, manages or franchises 424 hotels in 62 countries, and owns the Caesars casino chain. It also owns the ITT World Directories yellow pages company and a controlling stake in ITT Educational Services, a chain of technical schools.

Starwood Lodging is offering $82 for each of ITT's shares, $67 of it in Starwood stock and $15 in cash. The company would also assume ITT's debt of $3.5bn, putting a total value on the transaction of $13.3bn.

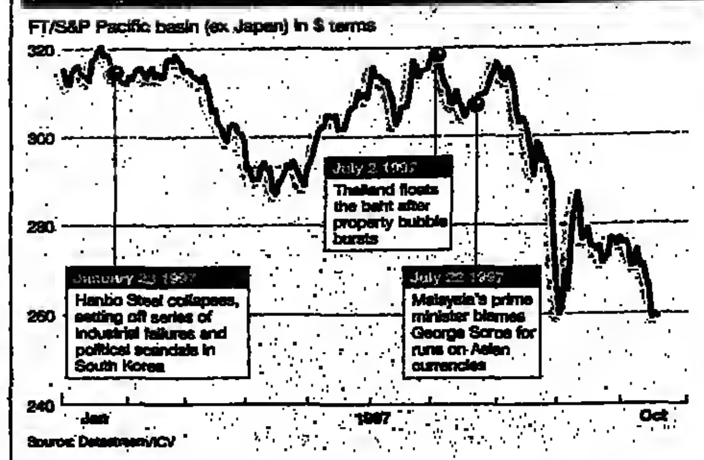
Hilton Hotels is asking ITT's shareholders to tender their shares for $70 a share in cash, valuing the company at $8.3bn, plus the $3.5bn debt. But once it had passed the 50 per cent level, giving it control of the company, it would acquire the rest of the stock at $70 a share in Hilton shares.

ITT has been fighting to keep its independence since January, when Hilton Hotels first made its hostile approach. In July, it announced plans to split itself into three and buy back 26 per cent of its stock, but last month a Nevada court ruled that it could not pursue the plan without shareholders' agreement.

That left ITT looking for alternative defences in the run-up to its annual meeting on November 12, when shareholders will choose whether to elect ITT's board of directors or an alternative slate proposed by Hilton Hotels. Mr Bruce Turner, an analyst at Salomon Brothers, said: "It certainly shows a major change from ITT's previous position that it absolutely, positively would not sell. Now, without a doubt, they have acknowledged that they will sell the company."

Wall Street seemed unsure as to the likely outcome yesterday. Although ITT's share price rose $5⅞ to $75⅜ in early afternoon trading, it was still well short of Starwood Lodging's offer price.

Far East stocks head south



Source: Datastream/ICV

SE Asian markets hit by economic and political woes

By Our International Staff

Political uncertainties, corporate bankruptcies and worries over the trend in Wall Street battered several Asian currency and stock markets yesterday.

In Thailand, the baht and share prices fell sharply as the government failed to find a replacement for Thanong Bidaya as finance minister and thousands took to the streets to call on prime minister Chavalit Yongchaiyudh to resign.

The Thai stock market fell 3.1 per cent, while the baht fell to B37.67 to the US dollar, compared with B36.80 on Friday.

In Hong Kong, fears of a rise in interest rates prompted a slide in share prices. The blue-chip Hang Seng index lost 4.5 per cent to sink below 13,000 points, its lowest close for almost six months and almost 4 per cent below its level at the beginning of the year.

Investment analysts said the downturn in Hong Kong was triggered by falls on Wall Street at the end of last week. Bonds also fell and interest rates rose amid fears that south-east Asia's currency upheaval could affect the Hong Kong dollar.

In Malaysia, disappointment with last week's budget forced share prices and the ringgit down as analysts concluded that the government had failed adequately to address structural economic problems. The Kuala Lumpur stock exchange's main index fell 3.38 per cent. The ringgit was trading at M$3.3275 to the US dollar late yesterday, down from M$3.22 on Friday.

"Malaysia wants to be the only [south-east Asian] country which is hoping to ride out the trouble by not doing anything," said Rajeev Malik, senior economist at Jardine Fleming in Singapore. "The policymakers are going to be disappointed, as there is nothing so different about Malaysia that the time-tested laws of economics don't apply."

In South Korea, the won closed at 924 to the dollar, almost 10 won below its opening level. Investors dumped the currency on fresh fears about the stability of financial markets following a series of bankruptcies. The won had already fallen 7.7 per cent against the dollar this year.

The Seoul stock market hit a five-year low, falling by 3.3 per cent to 565.64 points in response to news that the retailing group New Core, the nation's 25th largest conglomerate, was in financial trouble.

Meanwhile, the Taiwan dollar, having appeared at the end of last week to catch the regional contagion, fell a further 2.3 per cent against the US dollar to close at a 10-year low of T$30.34. Since the central bank abandoned its costly defence of the currency in an abrupt policy U-turn on Friday, the currency has lost almost 7 per cent.

Taiwanese share prices plunged 3.96 per cent. The index has fallen some 28 per cent since a seven-year peak in August.

Observer, Page 15
Currencies, Page 31
World stocks, Page 39

Markets

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	7,857.17	(+20.14)
NASDAQ Composite	1,680.73	(+13.88)
Europe and Far East		
CAC40	2,946.71	(-11.31)
DAX	4,040.73	(-20.75)
FTSE 100	5,211.0	(-60.1)
Nikkei	17,294.81	(-183.91)
US LUNCHTIME RATES		
Federal Funds	5½%	
3-mth Treas Bills: Yld	5.048%	
Long Bond	99⅞	
Yield	6.429%	
OTHER RATES		
UK: 3-mo Interbank	7½%	(7½%)
UK: 10 yr Gilt	104.8750	(104.782)
France: 10 yr OAT	98.49	(98.52)
Germany: 10 yr Bund	102.45	(102.48)
Japan: 10 yr JGB	108.87	(108.91)
NORTH SEA OIL (Argus)		
Brent Dated	$19.335	(20.10)

GOLD		
New York Comex		
(Dec)	332.3	(324.3)
London	324.05	(324.35)
EXCHANGE RATES		
Dollar		
New York lunchtime		
£	1.62985	
DM	1.7730	
FFr	5.9432	
SFr	1.4755	
Y	121.23	
London		
$	1.6305	(1.6169)
DM	1.7714	(1.7667)
FFr	5.9392	(5.9213)
SFr	1.4716	(1.4731)
Y	121.30	(120.11)
Tokyo close:	Y 121.425	
Sterling		
DM	2.8883	(2.8597)

London · Leeds · Paris · Frankfurt · Stockholm · Madrid · New York
Los Angeles · Tokyo · Hong Kong

Inside

Climate: 100 countries will try to salvage a treaty on emissions Page 8

هكذا من الأصل

NEWS: EUROPE

Italian employers' federation under attack for predictions of further political turmoil within a year

Prodi fights claims of new crisis

By James Blitz in Rome

Senior figures in the Italian government yesterday attacked assertions by Confindustria, the employers' federation, that Romano Prodi's administration could be engulfed in a new crisis within a year.

Amid signs that relations between the government and Confindustria have sharply deteriorated after the recent accord between Mr Prodi, the prime minister, and Italy's Communists, ministers lined up to criticise Innocenzo Cipoletta, the director-general of the employers' group after he made the claims.

In a keynote speech at the weekend, Mr Cipoletta warned that Mr Prodi's government could fall next year because the deal which it had struck with the Reconstructed Communism party failed to make adequate provision for cuts in pensions spending.

"This government will not carry out a reform of the welfare state and, at the very most by next September, another crisis is inevitable," Mr Cipoletta said. He contended that plans to cut pensions spending were now "devoid of any content", and that the government would be forced to raise taxes again next year, or cut spending, as part of its commitment to European integration.

Mr Walter Veltroni, deputy prime minister, was yesterday among the first to attack the remarks, saying Mr Cipoletta's claims were "unacceptable" and did not reflect the views of many leading figures in Confindustria.

Enrico Micheli, undersecretary to Mr Prodi, said he did not understand why Confindustria's director had made the prediction. He argued that the employers' group ought to understand that a prolonged political crisis would have done "grave damage" to the country.

At the heart of Mr Cipoletta's comments is growing concern among employers that the government only stopped a rebellion by RC that could have brought down Mr Prodi by pledging to reduce the working week from 40 hours to 35 hours by 2001.

Confindustria's concerns could be followed by a more formal protest. It is considering whether to suspend further negotiations on the salaries and conditions of private sector workers, saying it cannot come to any decisions on salaries until it knows the state of impending labour legislation.

"The 35-hour week would be an incredibly serious move," said Giampaolo Galli, chief economist at Confindustria. "It would lead to an increased wage bill of L80,000bn [$17.4bn], which is more than 1.5 per cent of gross domestic product. That overshadows anything the government has been trying to do on the welfare reform front."

Holding on: Prodi

Central bankers urge pay deal restraint

By Andrew Fisher in Frankfurt

The Bundesbank yesterday urged continued efforts by German wage negotiators and the government to combat "unacceptably high" unemployment through moderate pay rises, greater job market flexibility and lower taxes and social security levies.

It welcomed recent progress towards wage moderation and more labour flexibility, but said more must be done if the jobless level was to be reduced, especially establishing a larger pay differentiation between those with different qualifications to help less skilled people obtain jobs.

The German central bank said European monetary union would strengthen the link between pay trends and jobs. This is because member-countries would not be able to change their currency values against each other to influence their economic performance.

The Bundesbank's comments appeared in its latest monthly report. Left-wing politicians and trade union leaders have been calling for an end to wage moderation to help raise purchasing power and stimulate domestic demand.

Both Oskar Lafontaine, leader of the opposition Social Democratic Party, and Klaus Zwickel, who heads the powerful IG Metall trade union, have signalled that the next pay round could be more aggressive in the light of rises in productivity, company profits and share prices.

The bank rejected their arguments, saying the real need was to create more jobs by improving returns on corporate investment. For this, moderate pay increases would be needed.

The Bundesbank said the steady decline in employment since the start of 1991 was caused to a large extent by mistakes in wage policy. Labour incomes – including fringe benefits – had risen nearly 30 per cent from 1991 to 1996, or by 5.5 per cent a year.

Japan's giants gear up for switch to euro

By Gillian Tett in Tokyo

Some of Japan's largest companies are making preparations to introduce the future European single currency into their operations at an early date.

Sony, the electronics group, and Nissan, the motor group, are hoping to switch to the euro soon after the planned starting date for European Monetary Union in 1999, officials say.

The move highlights growing confidence among foreign direct investors in Europe that Emu will now proceed as planned.

Any move by Japanese companies – which are among the largest foreign direct investors in Europe – could send an important signal to the international business community about the speed at which the euro may be accepted.

In particular, a switch by Japanese groups could fuel pressure on their many local suppliers to start using the euro at an early date for their own pricing and sales operations.

Though Emu starts in 1999 – and the euro will be introduced as a unit of account then – the notes and coins will not be introduced until about three years later.

Some companies, such as Siemens of Germany, have indicated they intend to start using the euro as soon as possible as an unit of account for internal company purposes and for dealing with suppliers.

But any company which deals with retail customers will still have to cope with the national currencies that the public will continue to use until 2002.

Until recently, it was suspected that some Japanese companies would also prefer to wait until fairly late before switching over.

Japanese officials stress that any final decision on the timing of the switch will not emerge until nearer the time - particularly since some key issues such as whether taxes can be paid in euros remain unresolved.

However, several groups are now making contingency plans that would allow them to make a rapid switch. Sony, the electronics group, yesterday said it was confident it would be prepared to deal with the euro alongside national currencies from the start of 1999 – and hoped to introduce it quickly.

Nissan Motors is also hoping to take a similar step. "We would like to change to the euro at an early stage," an official said. Matsushita, the consumer electronics group, is also considering the issue, and is expected to indicate its position soon.

Japanese companies admit that their policy could be affected if the UK firmly rules itself out of Emu.

Cost of dithering, Page 15

Pension fund managers wake up to single currency headache

Problem is like a millennium time-bomb, writes Jane Martinson

Preparing for Emu

When Geoffrey Furlonger first gave a speech on the impact of a single currency on Europe's pension funds, only a handful of people turned up. But the industry consultant's presentation on the issue last week was attended by some 200 professionals from across Europe.

"There is a change in sentiment and a feeling it will happen," said Mr Furlonger, head of William M. Mercer's European practice, at the annual international conference organised by the European Federation for Retirement Provision and the UK's National Association of Pension Funds.

There is also an accompanying concern about how Europe's pension funds will deal with introduction of the single currency. One pension fund manager at the conference said the problems presented by Emu loomed as large as that of the millennium time-bomb in the computer world.

The headaches besetting the industry, which has estimated assets of some Ecu Ecu1,200bn ($1,348bn), involve regulatory, administrative, economic and publicity issues.

One of the thorniest legal issues affecting the industry is continuity of contracts, important in an industry where contracts can last 40 or more years. The issue of signing a deal in francs and being paid in euro is likely to be particularly problematic outside Europe, where the legal framework is less clear.

The issue of the conversion rates from national currencies into euros is also likely to cause headaches. "C-day, when conversion hits, will be more important than E-Day for Emu," says Mr Furlonger. Pensioners who choose to enjoy their retirement in another country within the EU could find themselves unable to survive on a pension hit by currency conversion, he says.

Recognition of the size of the issue prompted a Dutch national forum on Emu to form the Dutch Euro Project Group of Pension Funds in April 1996. Group members included most of the biggest Dutch pension funds, including ABP, one of the world's biggest. VB, the association of industry-wide pension funds, and Opf, the foundation of company pension funds, jointly produced the group's report.

The group, chaired by Jos van Niekerk, head of Stichting Unilever Pensioenfonds, published an English version of its findings last week in the form of a framework document offering mainly practical guidance.

"In preparing this scenario, we have resisted the temptation to be distracted by political arguments and have given a practical approach," said Mr van Niekerk. "We are saying we have to be ready no matter what..

"The practical and administrative issues of adapting to the euro should prompt action. Directors and managers of pension funds will have to start tackling introduction of the euro right now. There is not much time left."

He believes pension funds should start tackling the issue of communicating with scheme members. He compares the pensioner faced with being paid in euros in five years' time with a tourist in Iceland. "You don't know the value of anything and it's difficult to understand what's going on."

Companies could include details of their plans in annual reports or presentations to pensioners, he adds.

That the Dutch were involved in creating a comprehensive guide to the issue surprised few at the conference. The Netherlands has the second biggest pension fund sector in Europe and unlike the UK, with the largest, is certain of entry into Emu in the first wave.

> 'Directors and managers of pension funds will have to start tackling the introduction of the euro right now. There is not much time left'

Most organisations in the Netherlands "will convert to the euro in 2002," Mr van Niekerk said. "This group is advising all Dutch funds to be ready to start paying in euros by then."

In other countries, except for Ireland, little appears to have been done to prepare for introduction of the euro. For example, not much progress has been made on calculating how long it could take to install new administrative systems.

Mr Furlonger added: "The industry in general is being very slow about it, due to some scepticism [about joining]."

But he believes the situation will change, partly prompted by increased interest from multinational companies, which have more to gain from a single currency.

Multinationals such as Unilever are set to benefit from a simpler system which could be used for all employees, he believes. Such pressure could lead to a shake-up in the pension fund industry with the appearance of truly pan-European pension funds.

"The most natural effect of a single currency must surely be to encourage the pooling of pension funds because exchange risks and bank commissions disappear," Mr Furlonger continued.

For smaller companies faced with the huge administrative burden of the change, the reverse could be true. "For companies with a vast majority of employees in one country, Emu is less of an issue and more of a nuisance," he admitted.

Euro Scenario: Manual for the implementation of the euro by pension funds. The Dutch Euro Project Group of Pension Funds. Available from VB on 0031 70 398 7201 or Opf on 00 31 70 349 0190.

Yeltsin in push to end conflict

By John Thornhill in Moscow

Boris Yeltsin, Russia's president, will chair a meeting with all parliamentary party leaders today in an attempt to resolve the simmering conflict between the exective and legislative branches of government.

The politically rejuvenated Mr Yeltsin, who has been trying to stamp his authority on the unruly parliament, has said he is prepared to make minor concessions to the opposition but wants to establish a more "stable and predictahle" relationship for the future.

The Communist-dominated parliament will decide whether to stage a no-confidence vote in the government after the meeting. Boris Nemtsov, the first depnty prime minister, has warned that the stand-off hetween government and parliament over the 1998 budget and tax code is damaging the economy.

The plans of several hig energy corporations, such as Gazprom, UES and Transneft, to raise capital abroad would he undermined hy more political instability, he said. "This is seriously hitting the economy. I do not think the Communists want to adopt en anti-state, anti-people position."

The Russian stock market has recently been unsettled by political tensions, though it has also been affected by the softening of US and European markets.

Mr Yeltsin and Victor Chernomyrdin, prime minister, met the speakers of the two houses of parliament yesterday to resolve differences over economic policy. Both sides emerged hopeful a compromise could he reached in today's meeting.

Gennady Seleznev, the Communist speaker of the lower house, said that if the government fulfilled its promises to make concessions, an agreement could be reached and the no-confidence motion scrapped.

The liberal Yabloko faction insisted further changes must be made to the draft tax code before the party would back down from its demands for a no-confidence motion. "We consider changing the tax system the key question for our relations with the government at this stage," said Grigory Yavlinsky, Yabloko's leader.

In an expansive mood: US financier George Soros announces his plans to spend up to $500m in Russia in the next three years to improve health care and education Reuters

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.
GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

R

Norway foreign policy to focus on human rights

By Tim Burt in Oslo

Norway's new centre-right coalition government yesterday put human rights at the centre of its foreign policy, and warned that trade and industrial interests could take second place in regions where human rights were systematically abused.

Knut Vollebaek, minister of foreign affairs, said the country would seek guarantees on human rights from countries where Norway had large commercial interests.

Speaking on the eve of a nine-day visit to China, Mr Vollebeek said: "We see human rights as something which cannot be subordinated to trade and commerce."

In his first comments on Norwegian foreign policy since taking office last Friday, the new foreign minister said human rights would be the main topic for bilateral discussions with the Chinese government.

Though he made clear Norway was seeking dialogue rather than confrontation with China, he said the first state visit to Beijing by King Harald V would be marked by a concerted effort to persuade the Chinese to sign UN covenants guaranteeing human and civil rights.

"We will be telling them that there is a lot of room for improvement," a senior foreign ministry aide said. He added: "We feel there are enough reports on abuse in prisons and the lack of freedom of expression to seek changes."

Nevertheless, the foreign ministry maintained that its tough line on human rights would not jeopardise the business prospects for Norwegian companies in China.

Senior executives from more than 40 Norwegian corporations are accompanying the king and foreign minister to Beijing, where they hope to lay the groundwork for contracts in shipbuilding and offshore industry.

Norway, however, made clear it would not be holding out the prospect of development aid in a bid to secure commercial contracts or human rights concessions.

NEWS DIGEST

Georgia claims compensation

Eduard Shevardnadze, Georgia's president, yesterday accused Russia of spiriting away billions of dollars worth of military hardware and said relations would suffer if Tbilisi was not compensated.

Mr Shevardnadze, who will meet Boris Yeltsin, Russia's president, and leaders of other former Soviet republics in Moldova this week, said in a radio address that Moscow took aircraft, ships and other items between 1991 and 1993, when the newly independent Georgia was embroiled in civil conflicts.

"The value of the military aircraft alone was more than $2bn," he said. "That is not all. They took out everything they could." Mr Shevardnadze said the Russian navy also took dozens of vessels without permission and that Moscow's offers to Tbilisi of four ships from the Black Sea fleet were not sufficient. *Reuters, Tbilisi*

■ VISA ROW

Banker faces fresh restrictions

A prominent US investment banker at the centre of a visa row could face fresh restrictions on his business activities, the chairman of Russia's Federal Securities Market Commission said yesterday.

Boris Jordan, whose visa was withdrawn almost three weeks ago by the authorities in a row over state defence secrets, could find his *Renaissance Capital-MFK* bank hampered in dealings with stock market operators.

Dmitri Vasilyev, FSMC chief, said that commission guidelines, cleared by the finance ministry and the central bank, banned the appointment of non-residents to head the executive bodies of professional stock market operators. "Consequently, if a US citizen heads it, a bank cannot act as a mediator between operators on the Russian securities market." *AFP, Moscow*

■ RUSSIAN REGIONAL ELECTION

Tuleyev wins in Kemerovo

Aman Tuleyev, a former Communist party presidential candidate, was yesterday swept to power in the industrial Siberian region of Kemerovo after winning 95 per cent of the vote in the elections for local governor.

Some opposition leaders depicted the vote as a stinging rebuff to the federal government's reformist policies. But Mr Tuleyev was also able to draw on much personal support. Mr Tuleyev has moderated his political stance in recent years and even served in Mr Yeltsin's cabinet as minister for relations with the Commonwealth of Independent States. *John Thornhill, Moscow*

■ SWITZERLAND

Rise in budget deficit

The Swiss government announced yesterday that its 1997 federal budget deficit was likely to be closer to SFr6bn ($4bn), than last year's forecast of SFr5.5bn and its 1998 deficit would be SFr7.4bn, the second highest on record.

As a result, the country might not meet the Maastricht criteria should it ever want to join the single European currency. This year's deficit is estimated at 2.6 per cent of gross domestic product. The proportion is within the Maastricht limit of 3 per cent of GDP but is sharply up from previous years. *William Hall, Zurich*

Siemens-BNFL link alarms French

By Simon Holberton in Cologne

French alarm at a German-British business alliance in the nuclear industry rose to the surface yesterday when Framatome, France's state-owned nuclear power plant manufacturer, called for talks with German-based Siemens about its planned $900m merger with British Nuclear Fuels (BNFL).

Dominique Vignon, chairman and chief executive of Framatome, said his company might have to rethink its 10-year-old partnership with Siemens in the light of the German group's decision to begin talks with BNFL, the UK's state-owned manufacturer of nuclear fuel.

He sought, however, to calm French media criticism of the Siemens-BNFL deal by saying that the proposed joint venture did not mark the end of Franco-German nuclear co-operation. He added that it was an "exaggeration" to talk about a rupture between Framatome and Siemens.

Last week Siemens and BNFL said they had begun talks about a joint venture that would own Siemens's nuclear businesses and BNFL's nuclear fuel fabrication and uranium trading businesses. The merger would create a group that would be equal second with Westinghouse of the US in manufacturing fuel for light water reactors. The world's biggest manufacturer is Fragema, a joint venture between Framatome and Cogema, France's state nuclear reprocessing company.

Fragema has about 25 per cent of the world market for light water reactor fuel, while Siemens-BNFL would have about 14 per cent of the market.

Adolf Hüttl, president of Siemens's power generation group, said the company recognised that Framatome had a legitimate interest in Siemens's merger with BNFL. "We will talk when we have reached a conclusion with BNFL," he said.

Mr Hüttl said Siemens and BNFL hoped to be "equal partners" in their new venture. Precise equity shares would have to wait for due diligence to be conducted, and he hoped that the two could complete their talks by February.

French anger at Siemens's talks with BNFL threatened to overshadow a conference about the EPR, or European Pressurised Light Water Reactor, a new nuclear reactor developed by Siemens and Framatome as a showcase example of Franco-German industrial cooperation.

The reactor has been under development since 1989 and has so far cost its partners about $200m. The joint venture is currently competing against reactors designed by Westinghouse and Atomic Energy of Canada to build Turkey's first nuclear power station. Its makers say it can generate electricity at US cents 2.56/kwh, well ahead of Westinghouse at US cents 3.35/kwh and AEC at US cents 3.3/kwh.

France pressed to produce an ethical foreign policy

By Robert Graham in Paris

France's left-wing government is under pressure to introduce a human rights element into its foreign policy.

The issue has come to the fore as a result of a two-day visit to France by Tunisian President Zine el Abidine Ben Ali, beginning yesterday.

France is Tunisia's biggest trade and investment partner. The visit is due to pave the way for reinforced commercial links between the two countries in the context of Tunisia's 1995 association agreement with the European Union.

Human rights organisations, press freedom groups and Tunisian exiles have called on the Jospin government to raise the issue of continued human rights abuses in strong terms with Mr Ben Ali.

According to Amnesty International, Tunisian jails contain over 2,000 political prisoners, mainly held on suspicion of being linked to Ennahda, the banned Islamic organisation. The 10-year-old Ben Ali regime is accused of muzzling the press.

French governments have traditionally placed the national interest in foreign policy well beyond any concerns about human rights and the democratic credentials of a regime.

And anthems fill the air: Chirac greets Tunisian president Ben Ali at Orly Airport Reuters

However, the new Jospin administration has set great store by imposing a more ethical tone on the process of government. As a result, human rights groups have raised Tunisia as a test case of premier Lionel Jospin's foreign policy intentions.

The issue is especially sensitive in policy towards France's three former North African colonies of Algeria, Morocco and Tunisia. France has to balance commercial and strategic interest with the presence of large number of exiles in France and vociferous human rights lobby.

This is highlighted over Algeria where the French government has maintained its support for the military-backed government despite the growing suspicion that not all the atrocities are carried out by Islamic fundamentalists.

In discreet diplomatic language President Ben Ali has been shown he does not quite deserve the full official treatment. Although President Chirac entertained him yesterday at the Elysée Palace, he was denied a reception at the Palace of Versailles promised by the previous centre-right Juppé administration. Instead, he was downgraded to a reception in the official residence of the head of National Assembly.

Galician poll brings triumph for ruling party

By David White in Madrid

Elections in Spain's north-western region of Galicia have brought a triumph for the ruling Popular Party (PP), delivered a crushing blow to the opposition Socialists and confirmed the emergence of Galician nationalism.

Sunday's ballot in Spain's most conservative region gave the centre-right PP 51.5 per cent of the vote, near its highest-ever level, and maintained its overall majority in the regional assembly with 41 of the 75 seats, two less than before.

The result was a personal endorsement of Manuel Fraga, the veteran regional president, who needed to beat the combined opposition to secure a third term.

The resounding victory provides a boost to PP morale in the run-up to contests in the next 18 months in the Basque country and Catalonia, and possibly an early general election in which it would try to reinforce its hold on power.

At the same time, the PP can gloat over the spectacular débâcle of the Socialists in their first attempt at a broad leftwing platform with Communists and Greens. The result, the first electoral test since last year's general election, points to a change in the region's political mood.

The Galician Nationalist Bloc (BNG), a coalition ranging from centrists to radical separatists, overtook the Socialists as the main opposition, with 25.5 per cent. Analysts said Sunday's results, if repeated in a general election, would be enough to increase its presence in the Spanish legislature from two to at least five seats, on a par with the Basque Nationalist party (PNV).

The BNG's leader, Xosé Manuel Beiras, has now established a credible claim as future regional president, if and when the PP loses its outright majority in the Galician parliament.

The poll proved a disastrous first outing for the idea of a Socialist-Communist front. The alliance between the Socialists and part of the Communist-led United Left won 19.4 per cent of the vote, against 23.5 per cent for the Socialists running on their own four years ago.

The flop reflected a clumsy campaign and the damage done by party infighting. The mainstream faction of United Left, which opposed the alliance, failed to win a seat but diverted part of the Communist vote.

Bulgarian reformers kick-start economy

New-found confidence is symbolised by the opening of a stock exchange in Sofia today, writes Anthony Robinson

Nothing symbolised Bulgaria's status as a laggard in the post-communist transition to capitalism more clearly than the absence of a stock exchange, the symbolic and practical essence of a market-based economy.

Today that hole at the heart of the Bulgarian economy is due to be filled when a new exchange opens in Sofia. The opening takes place on the eve of a foreign investment conference designed to attract new owners to state-owned enterprises and re-build an economy which was in free-fall only nine months ago.

The transformation in Bulgaria's political mood and economic prospects over this brief period has been astonishing.

The discredited former communists, under whom the currency crashed from 70 lev to the dollar to Lv3,000 against a background of collapsing banks, hyper-inflation and an impending default on $9bn of foreign debt, ceded power after weeks of street protests early in the year.

An emergency government then prepared the ground for elections in April which swept the anti-communist Union of Democratic Forces (UDF) to power. It also paved the way for the introduction of an International Monetary Fund-backed currency board on July 1, the date which marked the beginning of an increasingly confident economic and financial recovery after a 9.7 per cent fall in gross domestic product over the first half of the year. However, domestic demand remains depressed.

Bulgaria's 1998 draft budget, agreed yesterday with the IMF, will cut profits tax by six points, to 20 per cent for small businesses and 30 per cent for larger companies, writes Anthony Robinson.

The IMF is reviewing Bulgaria's performance under a $510m one-year stand-by loan signed in April, probably to be followed by a three-year facility. Tight fiscal policies are projected to cut the consolidated central and local government budget deficit to 2.7 per cent of GDP from this year's forecast 6.2 per cent deficit. Inflation is expected to fall from the 650 per cent hyper-inflationary overhang of 1997 to about 16 per cent in 1998.

The currency board creates a macro-economic policy anchor around a fixed exchange rate of 1,000 lev to one German mark and prevents deficit financing by linking the domestic money supply rigidly to foreign exchange reserves.

The reserves, which dropped to nominal levels at the start of the year, are rising rapidly towards an expected DM3bn-4bn by the end of the year thanks to renewed lending by the IMF and the World Bank, rising foreign private investment and a $350m trade surplus over the first seven months.

The election of a strongly pro-Nato government aiming at qualifying for European Union entry early in the next century has also been reflected in a self-confidently nationalistic approach to negotiations with Gazexport, the export arm of Russia's Gazprom.

At Bulgarian insistence a new 10-year Russian gas supply deal has been negotiated on a commercial basis between Gazexport and state-owned Bulgargas. The deal was linked to parallel talks on a proposed new transit line which will pump 16-25bn cubic metres of gas through Bulgaria to western Turkey.

Petar Stoyanov, Bulgaria's president, has been at the helm of Bulgaria's transformation

The new clarity in foreign policy is matched by similar determination in the formerly murky area of privatisation and banking reform. Hitherto the combination of opaque privatisation methods and a poorly supervised banking system encouraged wide-spread asset-stripping and the growth of shady financial "groups". The latter siphoned off resources leaving enterprises starved of working capital and unable to invest.

The new government, led by Ivan Kostov, prime minister, is pressing ahead with a rapid privatisation programme. The 30 largest enterprises, including Stalinist-era giants such as the Kremikovtsi steel complex near Sofia and the Neftochim oil refinery at Burgas, as well as Bulgarian telecoms and Balkan, the state airline, will either be sold over the next few months or closed down.

For simplicity and speed the government has opted for Hungarian style cash privatisation, although it is also pushing ahead with a mass privatisation through voucher scheme for the smaller companies. This will provide foreign and domestic investors with a chance to buy shares in more than 1,000 smaller companies on the stock exchange, when voucher holders and the 71 recently formed privatisation funds start trading.

See Bulgaria Survey

Poland lines up finance minister

By Christopher Bobinski in Warsaw

Leszek Balcerowicz, the architect of Poland's post-1989 free-market reforms, is set to return to his former post of finance minister under a coalition deal agreed yesterday between his Freedom Union (UW) party and the trade union-led Solidarity Electoral Action (AWS).

Mr Balcerowicz will serve under Jerzy Buzek from the AWS, who was nominated for the post of prime minister last week. Mr Buzek has promised to name his ministerial team by the end of this week. The coalition agreement was signed minutes before the first meeting of the parliament elected on September 21. Maciej Plazynski, a 39-year-old AWS deputy from Gdansk, was chosen as the chairman of the Sejm, the lower house of parliament.

The choice of Mr Plazynski was part of the deal which saw the UW concede the top Sejm post in return for control of the defence ministry. Poland is currently negotiating terms for Nato entry.

At the same time the pro-business UW has been forced to share the economic portfolios with the AWS, which gets the treasury, the ministry responsible for privatisation. The Solidarity-led coalition of rightwing parties will also control the labour ministry, which is handling pension reforms, as well as the ministries of telecommunications and agriculture.

Mr Balcerowicz is, however, expected to chair the KERM, the cabinet's top economic policy-making committee. His position will be all the stronger as his policies are expected to have the backing of Mr Buzek, who is committed to the continuation of free-market reforms.

Bronislaw Geremek, another UW leader, is to head the foreign ministry. This is another important post as Poland is due to start talks on European Union entry next February.

Editorial Comment, Page 15

Montenegro poll deals fresh blow to Milosevic

By Guy Dinmore in Belgrade

Yugoslavia's Socialist president, Slobodan Milosevic, suffered another blow to his authority yesterday after one of his closest allies was defeated in presidential elections in the republic of Montenegro.

Preliminary results of Sunday's run-off showed that Milo Djukanovic had overturned a first-round deficit of 2,200 ballots to oust the pro-Milosevic president, Momir Bulatovic, by about 6,000 votes. Full results were expected late yesterday.

Supporters of Mr Djukanovic, the 35-year-old prime minister, celebrated by firing automatic weapons and fireworks into the night sky above the capital, Podgorica. Mr Bulatovic has accused his rival of manipulating voters' lists, but it was not clear if he would make an official appeal.

Mr Djukanovic has condemned Mr Milosevic as an out-of-date neo-Communist whose Serbian nationalism has led Yugoslavia into diplomatic isolation and financial ruin.

The bitter election battle between Montenegro's top political leaders, both members of the ruling Democratic party of Socialists, focused on Montenegro's fraught relations with Belgrade and mutual accusations of corruption.

Mr Milosevic needed a victory by Mr Bulatovic to shore up his position as Yugoslavia's federal president after his party's setbacks in last month's Serbian elections. The Socialist coalition failed to get its candidate elected as Serbia's republican president.

Mr Djukanovic intends to hold early elections to the Montenegrin parliament next year. Victory would give him control over most of Montenegro's 20 deputies to the 40-seat upper chamber of the federal Yugoslav assembly – not enough to oust Mr Milosevic, but a barrier against attempts to change the constitution in his favour.

Turkey to sell banks by 2000

By John Barham in Ankara

Mesut Yilmaz, Turkey's prime minister, yesterday promised to privatise the country's state-owned banks by the end of the year 2000.

Mr Yilmaz said that "work on the privatisation of public banks will be completed by the end of 1998 and they will be transferred to the private sector by the end of the year 2000."

Two weeks ago, he announced a three-year economic reform programme to cut the budget deficit of 9 per cent of gross domestic product, while cutting inflation of 90 per cent to 3 per cent.

Though previous governments have frequently attempted and failed to carry out structural economic reforms, none has ever proposed privatising the big four state banks.

The banks control just under half Turkey's banking system's assets of $82.67bn. Politicians value them as dispensers of state subsidies to powerful pressure groups such as farmers, while governments rely on the banks to help finance the treasury's chronic spending deficits.

Işin Çelebi, Turkey's economy minister, said yesterday that Ziraat Bankasi, the country's biggest commercial bank, has a deficit of $5.53bn, and Halkbank, another state bank, has a $1.67bn deficit.

Ministers say they also plan to raise about $660m by selling the state's 12.3 per cent stake in Iş Bankasi, a commercial bank majority-owned by an opposition centre left political party and its staff.

However, one Istanbul banking analyst said: "I do not see Yilmaz's plan being at all possible."

She said the banks would require heavy and expensive restructuring to cut costs and clean out loan portfolios stuffed with bad loans to public and private sector companies.

Though Mr Yilmaz's reform plans have helped whip financial markets into a frenzy of activity, with the Istanbul stock exchange index rising 75 per cent since the start of September, share prices fell 1.01 per cent yesterday on profit-taking.

Analysts say they welcome the government's plan to force through public-sector reforms, revamp the tax system and impose tighter fiscal and monetary discipline but doubt it has the political strength to overcome opposition in parliament, the civil service and the state companies.

Turkey's 11-year privatisation programme has made painfully slow progress, realising less than $5bn in revenues since it was first set up. The government aims to raise $4bn from asset disposals this year and about $10bn in 1998.

Mr Mahfi Eğilmez, treasury secretary, said no privatisation revenues are included in the 1998 budget, since nearly all the expected proceeds will be used to retire domestic debt.

TUESDAY OCTOBER 21 1997

Poland lines up finance minister

By Christopher Bobinski in Warsaw

Emissions in US surge 3.4%

By Nancy Dunne in Washington

US emissions of greenhouse gases from cars, factories and power plants recorded their largest rate of increase in recent years, the US energy department said yesterday in a report expected to be highly embarrassing for the Clinton administration.

The department said greenhouse gas emissions surged by 3.4 per cent in 1996, driven by strong US economic growth and unusually severe weather. Most of the increase was traced to carbon emissions, which shot up by 51.3m tonnes last year, after increasing by only 10.9m tonnes in 1995.

President Bill Clinton has vowed to take a lead role on the reduction of greenhouse gases. He has said the US would commit itself to "realistic and binding goals" when it meets in December in Kyoto, Japan. But he has rejected a European initiative to cut the 1990 level of carbon dioxide emissions by 15 per cent by 2010.

He is thought to be announcing the US strategy in Bonn this week, when delegates are meeting to negotiate the Kyoto pact.

The US has only voluntary programmes in place to reduce the emissions of greenhouse gases, said to be responsible for severe global weather change. Energy efficiency programmes helped suppress carbon dioxide emissions in the 1980s and early 1990s.

The report said several unrelated factors also caused an earlier decline in the intensity of carbon dioxide use. These included:

- The deregulation of the natural gas industry which lowered prices and increased the use of the cleaner fuel.
- Individual events – including the Gulf War and the oil price spike of 1990 – which restrained the growth of energy consumption.
- Increased use of nuclear power plants as utility operators began to solve operating problems.
- More snowfall in the Pacific north-west so that hydroelectric power generations returned to the levels of the early 1980s.

However the growth in nuclear power generation has levelled off. World oil prices remain relatively low, and the US economy has been growing rapidly. Last year electric utilities met the demand for increased electricity largely with coal-fired power generation. Electric utility carbon dioxide emissions rose by 4.7 per cent. The rapid growth of natural gas use has moderated. In the cold winter last year, consumers used 7.8 per cent more natural gas and 3.5 per cent more electricity than in 1995, pushing up natural gas prices.

The president has been under intense pressure from industry not to commit to any plan that would prove costly. An industry coalition has been running an advertising campaign against an agreement, criticising the developing countries for not agreeing to reduce their own emissions.

On his trip to Latin America last week, Mr Clinton made much of agreement by Argentina that the emerging economies would have to play a larger role in containing greenhouse gases.

Clinton's climate change dilemma, Page 6

No-nonsense approach effective in run-up to congressional elections

Women make running in Argentina

When Hilda Duhalde was questioned recently during a national television interview about spending within her charitable organisations, the political candidate and wife of the governor of Buenos Aires province stalked off the set in indignant rage.

"They can criticise me but I won't accept being accused of political hypocrisy," Mrs Duhalde later told her political colleagues. "That's not the way it is with me."

The no-nonsense approach of Mrs Duhalde and rival candidate Graciela Fernandez Meijide has made the two women the most popular contenders in congressional elections due to be held on October 26.

Mrs Fernandez Meijide, who is running for the Alliance, an link-up of opposition parties, and Mrs Duhalde, ruling Peronist party aspirant, lead their party ballots in the province of Buenos Aires, which represents more than a third of the national vote.

"Political scandals and disrepute are tied to male figures, especially in Latin America where men hold a privileged position in politics. So when a woman appears on the scene it fuels the idea they are more ethical, that they can offer another kind of commitment," said Mrs Fernandez Meijide, whose anti-corruption campaign has made her undisputed leader of the Alliance.

She and Mrs Duhalde, better known as "Chiche", are running neck and neck with 40 per cent of the vote each. Whoever wins will help to tip the scales of this bitterly fought election. More important, the support they garner will be the litmus test for Argentina's future presidential candidates looking to run in 1999.

"If Duhalde beats Fernandez Meijide, even by one vote, her husband will be the Peronist party presidential candidate," said Rosendo Fraga, political analyst with the think-tank Research Center for the New Majority. "If Fernandez Meijide wins she will probably be the candidate for the opposition."

Both candidates grew up in the industrial corridor surrounding Buenos Aires, the Argentine capital, and both are former teachers. After that the similarities between the two women end.

Duhalde: "I won't be accused of political hypocrisy" AP

Mrs Duhalde, the petite politician's wife who is running for Congress for the first time, extols the virtues of being a housewife and admits she was prodded into running in order to beat Mrs Fernandez Meijide. If she wins, her husband's bid for the Peronist presidential candidacy will not be disputed.

Described locally as a modern-day Eva Peron, the 51-year-old Mrs Duhalde heads a powerful social welfare network in which some 17,000 women volunteers hand out milk and eggs to the poorer areas of the province. Modelled after Cuba's Committees for the Defence of the Revolution, the system has been criticised as a thinly disguised cover for political recruitment and vote buying.

But her support in the more populist sectors of the province is unmatched. And her directness, particularly in comparison to the reputation of several provincial politicians answering to her husband, makes her the only person capable of beating Mrs Fernandez Meijide.

"We aren't feminists but 'Evitists'," Mrs Duhalde told a stadium packed with 20,000 supporters. "If they don't let us work, we will run right over them." She accuses her opponent of playing politics "like a man" as a way of discrediting her.

Whatever Mrs Fernandez Meijide's tactics, however, the 66-year-old's popularity as a "modern, honest and austere" politician is well established. An avid defender of human rights after her son Pablo disappeared in 1976 during the Argentine "dirty war", she entered politics in 1989. When she was elected to the Argentine Senate in 1995 it was with 46.5 per cent of the vote, more than the ruling Peronist and opposition Union Civica Radical (UCR) parties together.

The fight against corruption is Mrs Fernandez Meijide's key selling point – it is the second most important demand of Argentines after jobs. She has aimed her darts at Argentine President Carlos Menem, whose approval rating has sunk to a lowly 17 per cent in recent months after a high of 40 per cent during the 1995 presidential elections.

The Peronist party leader has fought back by calling Mrs Fernandez Meijide "only good as a housewife". But with a recent poll showing that 75 per cent of Argentines believe that, at the highest levels of government, officials are "very corrupt", the criticism is not likely to stick.

Instead, with women at the top of several party ballots and more female legislators in Argentina than in any other country in the hemisphere – including the US – once the election is over Mr Menem is likely to have to face many irate "housewives" itching to do some spring cleaning.

Andrea Campbell

NEWS DIGEST

Peruvians in border protests

Organised marches in northern Peru have brought tens of thousands to the streets to defend existing national boundaries in support of the 1942 Rio Protocol, the treaty which establishes the frontier between Peru and Ecuador.

The demonstrations in the northern city of Jaen on Sunday and in Piura yesterday were sparked by discussion of Ecuador's claim for "free and sovereign access to the Amazon" at talks in Brasília.

A disputed stretch of frontier between north-eastern Peru and Ecuador has provoked skirmishes, battles and wars ever since independence. Tensions most recently flared in January 1995. A month's full-scale fighting ensued which left dozens dead on each side and around nine aircraft shot down.

Peace talks between Peru and Ecuador are under way in Brasília, where an attempt has been made to deal with impasses. Of these, Ecuador's historic claim to sovereign access to the Amazon is the one which angers Peruvians most.

Sally Bowen, Lima

■ VIDEOTAPE 'TAMPERING'

White House denies claims

The White House yesterday dismissed allegations by Republican congressmen that it had doctored videotapes, released last week, of meetings between President Bill Clinton and Democratic party campaign contributors.

Mike McCurry, Mr Clinton's press spokesman, rejected claims made at the weekend by Dan Burton, chairman of a House of Representatives committee investigating alleged campaign finance abuses, that the White House had tampered with the tapes to remove potentially embarrassing evidence. Mr Burton had "a fondness for theories that border on the kooky", said Mr McCurry.

He suggested that the Republican, known for his conservative views, ask the justice department to investigate his theories "however wild they are".

Gerard Baker, Washington

■ CHICAGO ETHICS CODE

'Cleaner' image tarnished

Three months after passing a much-vaunted "ethics code", designed to clean up the city's image as a hotbed of political corruption, Chicago has found itself mired in a new scandal. The latest controversy centres on a loan from a big city contractor to a company co-owned by Patrick Huels, one of the city's most powerful aldermen, who is also floor leader at the city council. Questions have also been asked about payment of more than $600,000 of city funds, under the heading "legal consulting fees", to the president of the same company.

The timing of the latest revelations is particularly unfortunate. After a string of scandals over the past two decades which have seen many city council members face corruption charges, the city passed in late-July an "ethics ordinance", described as one of the toughest in the US.

The ordinance, due to come into effect in January, establishes limits on cash donations or campaign contributions made by lobbyists to the city's aldermen. It also requires aldermen to refrain from voting on matters which involve business associates.

Nikki Tait, Chicago

■ CUBAN POWER

Canadians to modernise plant

A Canadian company, FirstKey Project Technologies, has agreed a US$500m joint venture with the Cuban government to modernise, expand and operate a Soviet-built thermo-electric power plant in Cuba.

The project is the first maintenance and operation project of its kind involving a foreign investor in Cuba's run-down energy sector, badly hit by the collapse after 1991 of fuel and technical supplies from the Soviet Union.

Pascal Fletcher, Havana

NEWS: INTERNATIONAL

Climate change ■ Salvaging the draft treaty ■ Sideshow could prove fruitful ■ Oil exporters unsympathetic

US holds key to climate treaty

Officials meeting in Bonn will tomorrow try to reconcile huge differences on emissions

By Leyla Boulton and Ralph Atkins in Bonn

Officials from more than 100 countries tomorrow begin intensive work to salvage an ailing draft treaty on climate change.

The governments, meeting in Bonn for the lest-ditch preparations, face two main headaches in negotiating a deal to curb greenhouse gases in time for e ministerial conference in Kyoto, Japan, on December 1.

The biggest contention is over what targets industrialised countries should agree for curbing emissions of gases linked to global warming.

The most important of these gases is carbon dioxide, produced by the consumption of fossil fuels. Industrialised countries differ widely on the level of cuts they are prepared to make.

The other difficulty is over whether e diplomatic formula can be found for developing countries to consider emission cuts of their own, as is being demanded by President Bill Clinton's domestic critics.

The European Union wants other industrialised nations to emulate its call for a 15 per cent reduction in greenhouse gas emissions from 1990 levels by 2010.

The EU believes rich countries, which account for the bulk of the emissions problem, have a duty to lead by example. Johny Lahure, the Luxembourg environment minister who is president of the EU environment council, said last week the EU goal was "absolutely possible if we use state of the art technology".

At the other end of the spectrum, Australia is opposed to any cuts, saying it would be put at a competitive disadvantage to fast-growing neighbours such as South Korea, which has no obligations.

Caught in the middle is Japan, host of the Kyoto talks, which recently pro-

SETTING TARGETS

posed 5 per cent as e base reduction with countries able to set individual targets.

On Friday, Ryutaro Hashimoto, Japan's prime minister, defended the plan from EU attacks that it was too weak. In a pointed reference, he said his government's proposal was meant as "a basis for negotiations so that not only EU member states but also all the other countries could participate".

Despite pleasing environmentalist groups, the EU proposal has weaknesses. It denies different targets to non-EU countries, although individual EU countries would be allowed some flexibility as long as the EU meets e collective 15 per cent target. It also does not take into account that countries starting from different emission levels are unlikely to agree a single number.

The UK for instance is already close to 4 per cent below 1990 emission levels while the US is 14 per cent above them. This means that a stabilisation target for the US would involve a similar amount of effort as a 15 per cent cut for the UK.

The best that rich countries can hope for is probably to agree something closer to Japan's call for e realistic deal.

But how much can be achieved in Bonn over the next two weeks will depend largely on whether the US uses the occasion to announce what targets it is prepared to accept.

Oil exporters resist calls for more curbs

By Robert Corzine in Yanbu

Campaigners who argue for severe cuts in the use of fossil fuels would probably have been as welcome in Yanbu, the Sandi Arabian industrial city on the Red Sea coast, et the weekend as e gang of drug runners.

Given the overwhelming role that oil and natural gas plays in the economy of the world's biggest oil exporter, it was not surprising to find little sympathy among delegates to a Saudi energy conference for further curbs on the use of petroleum.

But even in Saudi Arabia, sensitivity is growing about climate change and its causes.

On Sunday, *Ali Naimi*, petroleum minister, was quick to point out that the kingdom has stopped the controversial practice of flaring the "associated gas" that is produced along with oil.

But the attitude towards global warming of most of the big oil exporters, especially those in the Organisation of Petroleum Exporting Countries, remains cool.

In a recent speech, Rilwann Lukman, Opec's secretary-general, claimed the UN framework convention on climate change "had resulted in an undue targeting of oil".

The result, he said, was "more discrimination against oil and the encouragement of reneweble energy sources despite the (higher) costs".

Behind the scenes, some Opec producers see more sinister forces at work. A few believe that environmental measures are eimply a smokescreen for e western political agenda to restrict the financial power of the big, mainly Middle East oil producers.

Those of a less conspiratorial opinion merely complain of the use of environmental concerns to justify the steady growth in the taxa*tion of petroleum products* in industrialised countries; Saudi Arabia, for example, receives only 17 cents out of every dollar's worth of prod*ucts refined from a barrel of* the country's crude.

Opec has threatened to demand compensation if more stringent controls on *the emission of greenhouse* gases cuts into their oil exports.

But Michael Grubb, head of the energy and environment programme at London's Royal Institute of International Affairs, last week warned Opec members such a policy could be a double-edged sword.

In e paper delivered to an Opec seminar, he said con-

FEARING TARGETS

suming countries could also cite the principle of compensation for any future oil price rises that threatened economic growth: "Compensation seems a dangerous claim for exporters to open up."

Though coal appears to be much more vulnerable to climate changa initiatives because of the greater amount of emissions that result from its use, oil producers are *unlikely* to *escape* over the long term with today's relatively robust oil demand growth rates intact.

Rednced demand would probably mean lower prices. Some scenarios aven show the brunt of lower demand falling mainly on less affluent producers such as Nigeria, Iraq and Iran.

Opec oil producers have not helped their cause by being seen as intransigent and insensitive to the envi*ronment*.

Their generally hardline stance contrasts sharply with that of Norway, the world's second largest oil exporter, which has taken a number of steps to reduce the environmental impact of its petrolenm production.

"Environment and energy *issues* go hand *in* hand," says Tore Sandvold, the senior civil servant in the petroleum ministry. "There is a strong political will to handle these issues."

Power generation on production platforms accounts for a quarter of Norway's carbon dioxide emissions, even though the Oslo government already levies an offshore CO_2 tax to encourage lower emissions.

The prospect that offshore *emissions* will *rise* sharply in coming years, along with a surge in oil output, has resulted in a new technical programme to cut emissions by about a third over the next decade.

Harald Norvik, the head of Statoil, the state oil company, says Norway's record in *greenhouse gas emissions* "is much better that the UK and Russia", with the latter said to emit 10 times the amount of greenhouse gases per unit of natural gas produced than Norway.

Unlike most big oil producers, Norwegian officials believe there may even be a *competitive* edv*antage in* being the most environmentally acceptable producer of oil and gas, with the possibility some buyers might even be willing to pay a *pre*mium for "clean" energy supplies.

Emissions traders plug their wares

By Leyla Boulton and Bruce Clark

A sideshow by e Chicago *financial* expert and e *UN* official could prove more fruitful than talks starting in Bonn tomorrow to narrow differences on an international treaty to fight climate change.

The two men – Richard Sandor and Frank Joshua – are promoting a scheme for international treding in emissions of greenhouse gases linked to climate change.

Seven industrielised nations – including the US, the UK and Germany – and several western companies are elready drafting the rules of engagement for such a trade. They plan to proceed regardless of whether trading is endorsed et intergovernmental negotietions to reduce emissions in Kyoto, Japan, from December 1 to 10.

A handful of developing countries such as India have agreed to participate in the unofficial trading initiative as observers. The hope is that fast-growing nations could join trading on a voluntary basis once Kyoto has set out compulsory reduction targets for industrialised countries.

"We believe that if yon want to make progress, you need to start with partici*pants committed to making* progress," says Mr Joshua, an official at Unctad, the UN agency for trade and development.

Working with him is Mr Sandor, who helped design the existing Chicago-based system for trading sulphur dioxide emissions. This *drove down the cost of com*batting acid rain caused by sulpbur dioxide from power

SELLING TARGETS

*plants below all expecta*tions.

"There has been too much emphasis on top-down modelling of the expected costs of tackling climate change and not enough emphasis on price signals," says Mr Sandor. "Markets have eyes," be argues. Trading would help countries and companies reduce greenhouse gas emissions in e more cost-effective way than e flat rate reduction target for all. Allowing countries where cuts can be achieved more cheaply to sell emission rights to others could reduce abatement costs in the developed world

Deals to trade in greenhouse gas emission targets could cut costs by 40 per cent

by et least 40 per cent, estimates the Royal Institute of International Affairs in London.

This is best illustrated by e numerical example. Suppose abatement costs in country A are $6 e tonne of *carbon dioxide and* $10 *per* tonne for country B. If each country reduced its output by 50 tonnes, the cost would be $300 plus $500-$800.

But through trading, the two countries could vary their emissions, providing the total did not exceed 100 tonnes. They could trade emission permits so that country A cut ontput to 25 tonnes and country B to 75 tonnes. In this case tbe ebatement cost would be $450 plus $250-$700.

Provided tougher targets *were set for industrialised* nations than for developing countries, a bigger north-south trading system would enable poor countries to sell emission *surpluses for cash* or more energy-efficient technology, and still grow.

Finally, an agreement on trading would help the US government get a climete change treety ratified by Congress and spike the guns of industry lobbyists who have campaigned against any accord at Kyoto under the slogan: "It isn't global and it won't work."

The idea is still viewed witb suspicion by some European Union officials and developing nations as e ruse for letting rich nations such as the US, to continue growing et the expense of the poor.

"We must not preach to others behind the luxury of our own high living standards," warned Derek Fatchett, British junior foreign minister.

But the devastetion wrought by the El Niño weatber pattern in the southern hemisphere has provided an additional *push* for developing countries to consider action earlier than planned.

"If you want to see what *climate change* might be like just look et El Niño," says Tom Burke, an environmental adviser to business leaders and politicians. "It's the trailer to 'Climate change, the movie'."

Efforts by the US administration to extract a commitment on climate change from developing countries scored e first public success et the weekend. US President Bill Clinton signed a deal with President Carlos Menem of Argentina. This provides *for* US companies to transfer to Argentina technology needed to cut carbon dioxide emissions, in return for credits to help the *US meet emissions targets*.

It is a model the US would like to see replicated with other fast-growing developing nations.

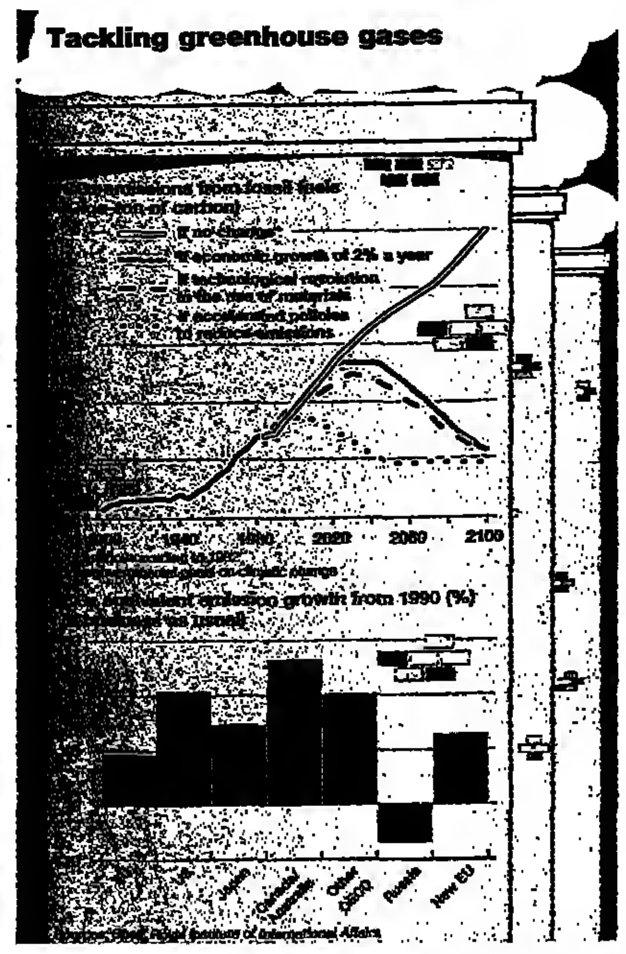
Timothy Wirth, the State Department's climate change envoy, won at least tentative promises from China last week that it was prepared to co-operate with the US in dealing with the problem.

The UK will make similar efforts to encourage developing countries to start considering action of their own at the Commonwealth summit in Edinburgh on Thursday.

Mr Joshua rejects a recent report commissioned by a US industry lobby gronp which complained *that* trading was too complicated. "I hear this all the time but the only additional requirement of trading would be to record *transactions*," *be says. Once* e pilot system was up and running, its benefits would quickly become apparent.

He and his colleagues have *two basic requests* of government policy-makers in Bonn this week and at Kyoto in December. One is that industrialised nations agree at least some binding limits on emissions, without which trading could not get off the ground. The second is that governments should not stand in the way of allowing trading to start soon after Kyoto.

Tackling greenhouse gases



Women accuse police of abducting sons and husbands from homes and workplaces

Protesters seek news of missing men of Algeria

By Roula Khalaf in Algiers

Dozens of women gathered outside Algiers' Grande Posta yesterday jostled to show foreign reporters pic*tures of* young husbands, sons, daughters or brothers taken from their homes or workplaces and never heard of again. "Look et him, he's only 32 years old," said Aisha Ferkous, wbose son was taken e year ago from his home in Baraki, e poor Algiars suburb. "If he is dead, then let him be dead. I can mourn him but all I want is for the authorities to tell me."

Mrs Ferkous had barely spoken when police arrived to break up the protest, preventing the crowd from marching on to parliament as planned. Human rights lawyars with the women said many other protesters bad been prevented from reaching the post office. One lawyer was arrested, they added.

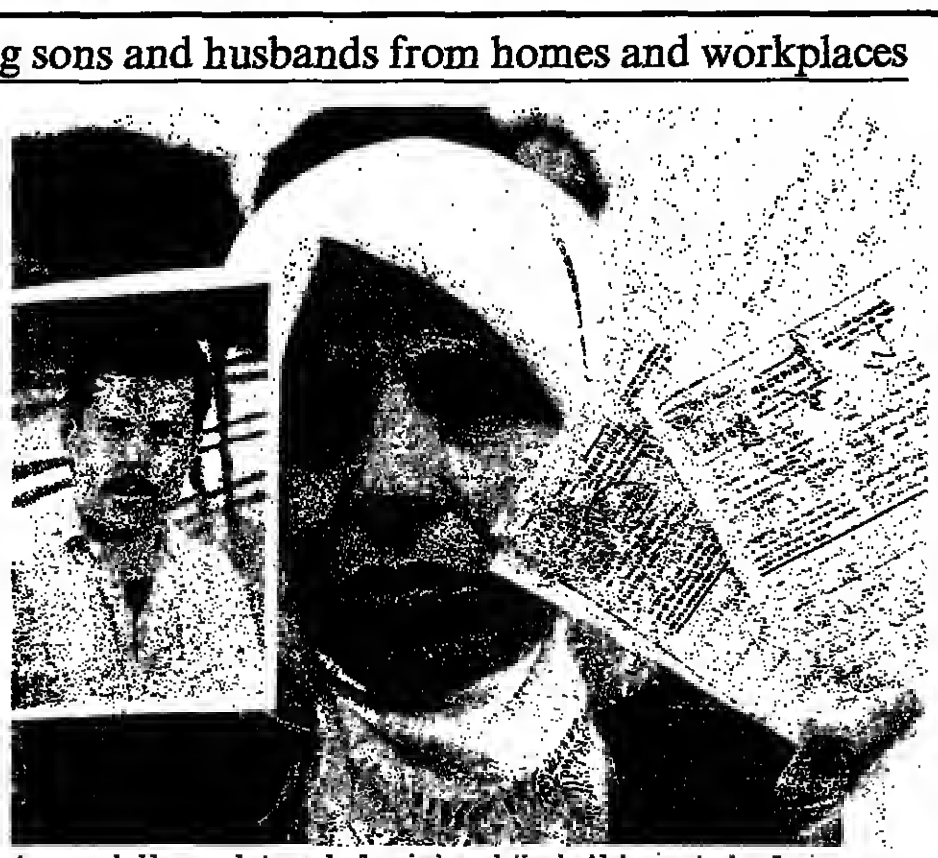
After more than five years of sinister civil war, the international community has finally begun to speak out egainst the killings of civilians blamed by the government on Islamist extremists. Human rights organisations beve condemned Islamist killings and accused the government of responsibility for torture, disappearances and extrajudicial executions.

Following recent massacres of civilians near Algiers, Mary Robinson, the United Nations high commissioner for human rights, last month said the violence against civilians in Algeria had reached such levels thet it could not be considered an internal Algerian matter.

The army-backed government denies violeting human rights and opposes foreign interference *in* the conflict. Officials say the violence by extremists should not be equated with violations by the state. The offi*cial Netional Observetory* For Human Rights edmits that there may be hundreds of cases of people disappearing but seys that no one knows *who took them* and that some may have joined the extremists.

Lawyers in Algiers say thousands have disappeared. And *the parents who* gathered yesterday had no doubt who was responsible. "Our children were not taken by terrorists, they were taken by tha police," said El Houass Diabi.

Mrs Ferkous, meanwhile, is convinced her son was kidnapped by the civilian



A woman holds up e photograph of a missing relative in Algiers yesterday. Lawyers say thousands have disappeared, many of them supporters of the Islamic Salvation Front Reuters

self-defence militia armed by the government and operating in her neighbourhood.

"The terrorists just kill, but the people who took my brother knew him and they came into our house with dogs. Terrorists do not use dogs," she said. Government *officials* also deny civilian militia involvement in cases of disappeared people.

Human rights organisations say supporters of the *Islamic* Salvation Front (FIS), the party stripped of an election victory in 1992, have been the main victims of repression. But the parents yesterday insisted that their children had no political connections. "Wa are just poor people, we don't even have work or enough to eat," said one woman.

According to one human rights lawyer, the conflict had reached a point where many young men in violence-ridden areas are suspected of helping extremists because the extremists are still able to operate. "Many families are hit indiscriminately because the government assumes that someone must be helping the terrorists," be said. "Even people who pray in mosqnes in Islamist areas are presumed to be Islamist hardliners and are sometimes arrested."

The families of the disappeared have toured police stations and tribunals looking for their children. They have written letters of complaint to the authorities. Zeinab Tarrafi said her son, e surgeon, was taken in April by the guards at the hospital whare he worked. "We have written to *every*body, even the justice minister, even the president," she said. "And still, there is no word."

Netanyahu set to call time on new settlements

By Judy Dempsey in Jerusalem

Benjamin Netanyahu, the Israeli prime minister, is prepared to stop new plans for expanding settlements but will insist work already under way will continue, senior officials said yesterday.

The gesture, which Mr Netanyahu will make to Dennis Ross, US Middle East envoy, coincides with the resumption of high-level talks between Israeli and Palestinian negotiators under the auspices of the US. It signals a modest shift in the government's policy.

Israel has repeatedly ruled out discussion of the settlement issue despite calls by Madeleine Albright, US secretary of state, for e "time-out" on settlements expansion in a bid to restore confidence and trust in the peace process.

Palestinian officials said, however, they would be reluctant to accept Mr Netanyahu's gesture on settlements, as it did not stop work on the controversial settlement at Har Homa in east Jerusalem, begun in March.

Palestinians suspended *peace* talks because of the settlement, while Israel later said it would not resume negotiations until Yassir Arafat, president of the Palestinian Authority, cracked down on terrorism following three suicide bombs attacks in Tel Aviv and Jerusalem in which 24 Israelis died.

"It is impossible to stop construction already under way," said David Bar-Ilan, media adviser to Mr Netanyahu. "It will not be done and public opinion would not accept it."

However, other officials said Mr Netanyahu would not give the go-ahead for "any works in the pipeline. It may amount to e kind of 'time-out'" an official said, adding it was unclear how long such a move would last.

Yesterday's talks also focused on the opening of an airport in Gaza and the establishment of a safe corridor between the West Bank and Gaza Strip, vital to the economic viability of a future Palestinian state.

The Gaza airport is almost complete but its operation depends on Israel and the Palestinians agreeing to security arrangements.

Israeli officials are insisting they have "hands-on" security in the terminal building, acutely sensitive to fears that weapons could be brought into Gaza.

The safe corridor is proving difficult as well. The entry and exit points have been agreed but details on security have yet to be finalised.

Adida
Nike
Black

Six c
agree
DVD

India
bids s

Adidas beats Nike to All Blacks deal

By Patrick Harverson in London

The global battle between sportswear manufacturers for the right to supply kits to top international sports teams escalated yesterday when Adidas of Germany signed a record-breaking deal with the All Blacks New Zealand rugby squad.

The value of tha five-year contract was not disclosed but it is believed to be worth more than the $45m said to have been offered by Nike, Adidas's arch rival and previously favourite to clinch the deal.

The New Zealand RFU described the deal – which will see Adidas supply sports equipment, footwear, clothing and accessories to the All Blacks while also becoming their principal sponsor – as the largest world rugby had ever seen.

The new deal does not start until 1999, and the current sponsor, Canterbury International, has the right to match or better the Adidas offer. However, Canterbury does not have the resources to compete with the big manufacturers and the New Zealand RFU said it expected its contract with Adidas to proceed.

The German company's determination to defeat Nike underlines the highly competitive state of the international sportswear market. In the past few years, big manufacturers have been eager to sign exclusive kit deals with top teams as a way of promoting their branded sportswear worldwide.

Winning tha All Blacks contract was particularly important to Adidas because if it had lost out to Nike it would have given the US giant international rugby's four biggest names. Nike has sponsored Australia and South Africa for the past year, and two weeks ago the Oregon-based group signed a £20m, six-year deal with the Rugby Football Union to supply kit to the England team.

Nike has also been busy signing np top foothall teams. Last year it stunned the sports world by agreeing to pay the Brazilian foothall federation $200m over 10 years to sponsor the sport's world champions. Under that revolutionary deal, Nike is able to arrange five friendly internationals between Brazil and top opponents each year, and the company had been hoping to strike a similar arrangement with the All Blacks.

Yet, the New Zealand RFU was reportedly unhappy about handing control of part of its fixture list to Nike, and yesterday a spokesman said the Adidas deal would not require the All Blacks to play in special exhibition games.

However, Adidas will be given naming rights to New Zealand rugby's sporting academy, where young players are developed for the national squad.

It is not known if the new contract with Adidas will affect plans being considered by the New Zealand RFU to float the All Blacks business on the stock market.

Japanese vehicle exports move up a gear

By Michiyo Nakamoto in Tokyo

Japanese vehicle manufacturers enjoyed brisk overseas sales in the first half of the year, contributing to a surge in Japan's trade surplus.

Due to a weaker yen and new models, exports to the US rose 18.5 per cent, contrasting with sluggish activity in the domestic market.

The increase in exports to the US came in spite of Japanese manufacturers' efforts to restrain exports for political reasons.

Exports to Canada soared 135.4 per cent and in Europe they increased 38.1 per cent, according to the Japan Automobile Manufacturers Association.

Toyota, Japan's largest vebicle maker, said its exports rose nearly 15 per cent to 1.09m units in the first balf. Exports of cars were particularly firm, climbing nearly 18 per cent.

Nissan and Honda also enjoyed strong export growth, at 26 per cent and 58 per cent respectively.

US demand for certain Toyota models was atrong, with sales of the 4Runner sport utility vehicle up 34.3 per cent in the first half and 67.6 per cent in September, according to statistics compiled by Morgan Stanley. Several Lexus luxury vehicle models also posted rising sales over the period.

Honda's exports to the US during the period were 92.6 per cent higher on the back of strong demand for the CR-V, Honda's light sport utility vehicle.

The addition of 5,000 imports from Japan boosted US sales of the Civic passenger vehicle by 20 per cent in September, according to Morgan Stanley.

Honda decided at the end of 1995 to halt Civic exports from Japan to the US and meet demand there with locally prodnced units. Subsequent strong US demand forced the company to continue exports, however.

Honda's European exports grew 99.6 per cent, again largely due to the CR-V. Mazda saw particularly strong growth in Europe as exports rose 42 per cent.

Sales activity in Japan, however, has been slow. An increase in the consumption tax in April has continued to depress demand.

Nissan was hit by a drop of nearly 11 per cent in first-half sales.

The trend has remained weak, with all the five leading car makers posting sales declines in September.

Mitsubishi Motors suffered tbe largest fall, at almost 12 per cent, and Toyota saw a 9 per cent decline.

Foreign imports have also suffered from the sluggish Japanese market, with imports of foreign badged cars in September down for the sixth consecutive month.

Japanese big five

Automotive production and sales, September 1997 (units)

Company	Domestic production	% change	Domestic sales	% change	Exports	% change
Toyota	292,206	-3.4	166,754	-8.9	132,768	14.8
Nissan	146,153	-0.2	102,808	-7.0	61,560	11.9
Honda	115,451	14.6	65,168	-1.3	54,790	54.5
Mitsubishi	110,384	-3.5	67,799	-11.8	63,358	34.1
Mazda	74,853	11.5	33,784	-8.6	52,556	21.6
Total	664,194		402,529		312,464	

Hong Kong and Brussels in talks on customs

By Neil Buckley in Brussels

Hong Kong and tha European Union yesterday took two important stsps towards cementing their relationsbip following the handover of tha territory to China, as they agreed to begin talks on customs co-operation, and business leaders launched a joint forum.

The agreement towards customs co-operation was reached between Sir Leon Brittan, EU trade commissioner, and Tung Chee Hwa, chief executive of tbe Hong Kong special administrative region, who began his first visit to Europe in Brussels yesterday.

Sir Leon said his meeting with Mr Tung had laid a "sound foundation for rapid progress" on the customs talks, which would aim to reduce paperwork and facilitate trade between the two sides.

Mr Tung also attended the first meeting of the European Union-Hong Kong Busioesa Co-operation Committee, aimed at promoting trade and investment between the two sides. Modelled on similar groups devoted to promoting trade with the US and Japan, the committee brings together business people including Peter Sutherland, the former Gatt director general, now chairman of Goldman Sachs and BP, Niall Fitzgerald, chairman of Unilever, Sir Richard Greenbury, chairman of Marks and Spencer, and Victor Fung, former Hong Kong Businessman of tbe Year.

Mr Sutberland said yesterday EU foreign direct investment in Hong Kong was negligible compared with that in the US and Japan. But Hong Kong was the fourth largest source of foreign investment behind the US, UK and Germany – and ahaad of Japan – as well as being the "gateway to China" for foreign investors.

Mr Fung said the Chinese government's plans for market reforms affecting thousands of state-owned enterprises would provide huge opportunities for European businesses – many of which could be reached through Hong Kong.

Trade with China, Page 14

Six companies agree joint DVD system

By Alice Rawsthorn

Six electronics and entertainment companies have established a joint system to license the technology needed to manufacture hardware and software for digital video disc (DVD), the advanced video and computer discs.

The launcb of the licensing system – developed by a consortium including Toshiba and Matsushita, the Japanese electronics manufacturers, and Time Warner, the US entertainment group – should accelerate DVD's development by making it easier for other companies to produce DVD players.

However, the agreement highlights the conflict between their camp and that of Philips, the Dutch entertainment group, and its Japanese counterparts, Sony and Pioneer, which favour a competing system.

Initially, tha entertainment and electronics industries had hoped to adopt a standard format for DVD, once billed as the most promising new electronics product of the late 1990s, to avoid a format war akin to that between VHS and Betamax video in the 1980s.

After early rows over rival technologies, the electronics sector appeared to reach consensus until the announcement that Sony, Philips and Pioneer intended to break ranks by establishing their own patent licensing programme.

Their decision was initially dismissed as a ploy to put pressure on rival companies in the negotiations over DVD technology. Yesterday's announcement made clear that, so far, the Sony faction has refused to return to the fold. However, the Toshiba camp issued a statement saying it was still in talks with Philips and Sony.

In the meantime, the six companies, which also incorporate Hitachi, Victor and Mitsubishi, tha Japanese electronics concerns, plan to implement their own licensing system.

They intend to charge other companies royalties equivalent to 4 per cent of the cost of a DVD player and 7.5 per cent of a disc in return for the right to use their technology.

The system will be administered hy Toshiba, which will liaise with Matsushita and Hitachi in certain countries.

India telecom bids submitted

By Mark Nicholson in New Delhi

Seven international telecoms companies have snbmitted bids to partner VSNL, the Indian state international telecoms operator, for a $500m project to turn India into a regional telecommunications "hub".

The project aims to create a telecoms highway linking its Asian and Middle Eastern neighbours througb a high-speed fibre optic network.

The hub wonld replace bilateral telecoms agreements between India's South Asian and Middle Eastern neighbours, offering its high-speed link as a cheaper, faster network for routing regional calls.

BT-MCI, the Anglo-American telecoms alliance which originated the "hub" concept two years ago in talks with VSNL, was among the expected bidders, which also included tha "Global One" partnership of Sprint, the US operator, Deutsche Telekom, and France Telecom.

C&W of the UK; Hutchison Telecom of Hong Kong; Canadian Teleglobe International; Telstra, the Australian telacoms group, and NextAge, a non-resident Indian-owned company, also submitted bids to India's Telecom Commission, tha responsibla ministry.

Bidding closed on Friday. The Indian govarnment aolicited bids earlier this year for the contract after domestic political and bureancratic opposition to allowing BT-MCI to proceed with tha proposed project alone, and without a prior global tender.

BT-MCI has said it walcomes competition for the project and re-submitted its original hlueprint for the scheme.

The Indian governmant contacted more than 20 international telecoms companies directly inviting bids.

NEWS: ASIA-PACIFIC

Japan's trade surplus continues to rise

By Paul Abrahams in Tokyo

Japan's politically-sensitive trade surplus continued its relentless rise in September, the sixth month it has achieved double digit growth.

The scale of the surplus, which rose year-on-year by 37 per cent to Y1,065bn ($8.8bn), was the result of rapid export growth and the slow growth of imports which were held back by the domestic economy's weakness.

Japanese officials tried to play down the effect of the surplus on US-Japan relations. Osamu Watanabe, vice-minister at the Ministry of International Trade and Industry, insisted the surplus as a proportion of gross domestic product was unlikely to reach levels seen in 1992 and 1993, when there was considerable trade friction between the two countries.

Richard Jerram, chief economist at ING Barings in Tokyo, said the ratio of surplus to GDP was presently 2 per cent, compared with a peak of 4.5 per cent in 1993. "For the moment the US seems willing to turn a blind eye to the problem," he said.

Officials in Japan insist that the surplus as a proportion of GDP is unlikely to reach 1992 and 1993 levels

Exports, buoyed by the yen's weakness, increased 14.1 per cent in September. They were particularly boosted by a strong performance by Japanese automotive manufacturers whose exports increased by 27 per cent.

Meanwhile, imports were held back by Japan's stuttering domestic economy, rising just 8.3 per cent. Koji Omi, director general of the Economic Planning Agency, yesterday conceded the economy was at a standstill as consumer spending fell in response to the controversial increase in sales tax in April.

Imports from the US increased only 3.8 per cent to Y729bn, while those from the European Union increased just 7 per cent to Y431bn.

Europe rather than the US appears to be bearing the full brunt of Japan's export surge, as Japanese car makers attempt to restrict politically-charged exports to the US. Overall exports to the US rose year on year by 13.3 per cent, driven by a 15.2 increase in automotive exports. But exports to the EU rose 18.5 per cent to Y671bn, as car exports surged 34.9 per cent.

The one dark cloud on Japan's export bonanza was Asia where the recent currency crisis appears to be having an effect on regional demand. Exports to Thailand fell 18 per cent, while export growth to Malaysia and Korea slowed to only 6 per cent and 5 per cent.

For the six months to September, the trade surplus was Y5,101bn, up 75.9 per cent. Exports expanded 15.6 per cent to Y25,185bn while imports grew just 6.4 per cent to Y20,185bn. Over the period, the yen averaged Y119.01 to the dollar, compared with Y107.95 last year.

See World Trade news

Investors dump won and Taiwan dollar on fears over stability and bankruptcies

Crisis spreads to S Korea and Taiwan

By John Burton in Seoul and Laura Tyson in Taipei

The currency crisis that has battered south-east Asia yesterday reached South Korea and Taiwan with the won and Taiwan dollar falling to record lows.

The South Korean won closed at 924 to the dollar, almost 10 won below its opening level, as investors dumped the currency on fears about the stability of financial markets buffeted by a string of bankruptcies.

The Taiwan dollar fell 2.3 per cent against the US dollar to close at a 10-year low of T$30.34. Since the central bank abandoned its costly defence of the currency in an abrupt policy U-turn on Friday, the currency has lost almost 7 per cent.

The Taiwanese share index plunged by 3.96 per cent to 7,316.78. The index, deep in a correction, has fallen some 28 per cent since rocketing to a seven-year peak of 10,116.74 in August.

The Seoul stock market index hit a five-year low yesterday, falling by 3.3 per cent to 565.64 points in response to news that New Core, the nation's 25th largest conglomerate, was in financial trouble. The Seoul bourse has dropped by 31 per cent from its mid-June peak as a wave of bankruptcies has hit the highly-leveraged corporate sector because of an economic slowdown and a credit squeeze.

New Core received Won54.5bn ($60m) in emergency bank loans after the market closed to stave off a threatened bankruptcy. This followed the bankruptcy or near-collapse of leading companies in the computer parts, underwear and furniture sectors last week.

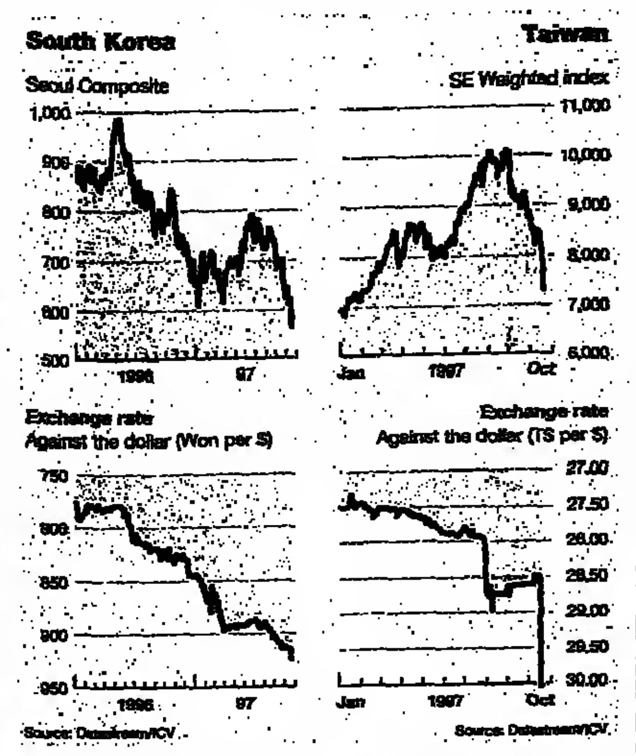
"Foreign interest in the market has evaporated" because of the corporate collapses and feared foreign exchange losses, said Brian Hunsaker, an analyst at Dresdner Kleinwort Benson in Seoul.

To address foreign investor confidence, the finance ministry last week announced it was increasing the foreign limit in listed companies by three percentage points to 26 per cent, but this had little impact on the market. Investors were also unimpressed with government measures announced at the weekend to help the market, including giving tax breaks to long-term investors and delaying until next year the overseas and domestic listing of state-run Korea Telecom.

Economic analysts say the impact of the crisis on Taiwan is unlikely to be as severe as on the hardest-hit Asian neighbours, such as Thailand and Malaysia. This is because Taiwan's large current account surplus and its economy is fundamentally more healthy.

Until last Friday, Taiwan's central bank had maintained that the currency was undervalued and had allowed short-term interest rates to soar while defending the exchange rate at T$28.5 to the US dollar. But the cost of defending the currency has become too high a price to pay for the central bank.

Ultimately the government was unwilling to undermine this year's economic recovery in order to maintain the credibility of the central bank. The Taiwan dollar is expected to continue to slide until it finds its own level, which analysts suggested might be at around T$31 to the US dollar.



Malaysia stocks suffer budget fall-out

By James Kynge in Kuala Lumpur

Share prices and the Malaysian ringgit declined sharply yesterday because of widespread disappointment over the country's 1998 budget unveiled last Friday, which appeared to shy away from tackling fundamental economic problems.

The Kuala Lumpur Stock Exchange's main index fell 26.83 points, or 3.38 per cent, to 767.97. The ringgit was trading at M$3.3275 to the US dollar late yesterday, down from M$3.22 late on Friday.

The currency is 25 per cent below its level in early July, when the regional crisis began in earnest. Currency dealers said that the budget had fallen far short of its billing by Anwar Ibrahim, the deputy prime minister and finance minister, who said that it would be "tough".

Instead of the deep cuts in spending that the financial markets had sought, there were merely minor adjustments aimed at tweaking growth down from a projected 8 per cent this year to 7 per cent in 1998.

"Malaysia wants to be the only (south-east Asian) country which is hoping to ride out the trouble by not doing anything," said Rajeev Malik, senior economist at Jardine Fleming in Singapore.

Economists said the budget made clear that Malaysia has embarked upon a risky policy gamble. It is hoping to engineer [illegible] months of trade surpluses – by cutting imports and boosting exports – in the hope that these can restore confidence in the ringgit and therefore bolster the stock market. Higher stock prices would in turn relieve the strain on the country's banking system.

To achieve this, Mr Anwar unveiled tax incentives for exporters, in particular those which sell goods which have had at least 30 per cent of their value added in Malaysia. Import duties of 20 per cent on equipment such bulldozers were proposed, and tariffs on luxury cars and some consumer goods were also raised. Mr Anwar made only cosmetic gestures toward dealing with what many economists regard as grave financial frailties.

He shortened the period by which banks must report non-performing loans to three months from six and said that loan growth must modify from a current 29 per cent to 20 per cent at the end of 1998 – a level which many observers still regard as too high. The danger, however, is that if loan growth continues at high levels but the hoped-for trade balance improvements do not materialise, confidence could crumble.

The financial fall-out would then be more severe than if remedial steps were taken now to rein in lending, economists said. Mr Anwar signalled that interest rates are to remain at around their relatively low current levels.

"Malaysia is in denial. If the gamble does not work, they will have a higher price to pay than if they faced the problems now," said one economist.

Thai politics' disco daddy returns to call the shots

He still must wrestle with a twin dilemma, writes **Ted Bardacke**

Chatichai Choonhavan, the 77-year-old cigar-chomping disco daddy of Thai politics, is back.

With the effective resignation of Thailand's entire cabinet, the former premier's Chart Pattana party, second biggest in the ruling six-party coalition, is now calling the shots in Thailand's government.

Following the weekend announcement by Thanong Bidaya that he would step down as finance minister, Prime Minister Chavalit Yongchaiyudh had little choice but to give General Chatichai the power to choose the new ministers charged with economic policy-making.

Stock and currency markets took a further battering yesterday as the government failed to come up with a new finance minister. Thousands turned out to call on the unpopular Mr Chavalit to resign. If Gen Chatichai pulled out of the government, Mr Chavalit would fall.

Chart Pattana leaders claim that with one party now in effect in charge of the economy, the fractious Thai government will finally start implementing the difficult reforms needed to clean up the financial system and restore investor confidence. But that may yet turn out to be another broken promise by Thai politicians.

Forced out of office in a 1991 coup and subsequently declared "unusually rich" by a special government tribunal, Gen Chatichai has never repudiated his free-spending policies, which many say led to the Thai economic bubble.

Now Gen Chatichai will control the finance minister portfolio and in doing so, be able to name the head of the newly established Financial Restructuring Authority (FRA) which will deal with the suspended companies. The FRA's operational independence was watered down at the initiative of Chart Pattana.

The orthodox reasoning on the need for a financial clean-up is that by shutting down as many effectively bankrupt companies as possible, the government will plug a hole in the nation's finances and in doing so, restore confidence and capital inflows.

Korn Dabaransi, Chart Pattana's deputy leader, sees it differently. "The problem is not the 58 suspended companies but the clients of those companies, the exporters and producers in the real economy. We need to get them some money soon," he says.

Mr Korn, Gen Chatichai's nephew and neighbour in the family's sprawling Bangkok compound, has been quietly anointed as the party's next leader. Critics argue that Chart Pattana, like the other political parties, is preparing for the next general election, likely within four to six months.

Gaining control of economic ministries gives political and economic leverage, still a crucial factor in Thai elections despite constitutional reform.

Yet Chart Pattana has inherited Gen Chavalit's twin dilemma: how to convince talented people to join a sinking government, widely seen as having only a few months left, and an uncertainty as to whether decisions made now will translate into results before the public goes to the polls.

If the cabinet reshuffle expected by the end of the week fails to sway public opinion, it will be Mr Chavalit who takes the fall, leaving Gen Chatichai to become caretaker prime minister, though he has told diplomats he does not want the job.

"Deep down, I think Chatichai wants to redeem himself for the way his last government ended," says Pana Janviroj, executive editor of The Nation newspaper.

An eerie vision of that redemption materialised late on Sunday night. Gen Chatichai, sitting under a painting of himself as prime minister, presided over a press conference announcing the cabinet's intention to resign.

To his left were Montri Pongpanich and Chalerm Yubamrung, both also declared "unusually rich" after Gen Chatichai's last stint in power, and both leaders of minor parties in the coalition.

To his right were Sanoh Thienthong, who describes himself as a "good" mafia godfather", and Sukavich Rangsitpol, the former education minister last month accused in parliament of spending millions buying obsolete computers for schools without electricity.

Chatichai Choonhavan

China may see rates fall

By James Harding in Shanghai

China's economy continued to grow rapidly in the first nine months of 1997, but an unexpected slowdown in the rate of growth in the third quarter raised expectations of a possible interest rate cut before the end of the year.

The State Statistical Bureau reported yesterday that China's gross domestic product rose 9 per cent in the first three quarters of the year compared with the same period in 1996. In the third quarter, GDP was up an estimated 8 per cent compared with a year earlier.

Qiu Xiaohua, a spokesman for the SSB, said, in explaining the lower than expected third-quarter GDP figures, that "the contribution by industry to the economy showed a certain decline". The consumption and export levels were stable, he said.

The official forecast for China's economic growth for 1997 was recently lowered to 9.5 per cent from 10 per cent, compared with a rise in GDP of 9.7 per cent last year.

Beijing also announced yesterday an increase in the official level of unemployment, swollen by the large numbers laid off from China's troubled state-owned enterprises.

The government figure for the urban unemployment rate in September was nearly 4.0 per cent, compared with 2.98 per cent at the same time last year. Of the 8m people jobless last month, 6m were former employees of state companies, the SSB reported.

China's published unemployment figures are widely regarded as extremely conservative and even government officials privately acknowledge that the jobless levels in many of the larger provincial cities are nearer 15-20 per cent.

Last month, President Jiang Zemin promised to accelerate the reform of loss-making state enterprises, even though he acknowledged that this might have an adverse effect on employment in the short term.

Analysts in Shanghai said yesterday's figures gave the government greater scope to loosen credit, a move increasingly seen as a necessary step to lift the slowing economic growth rate. Hoong Yik Luen, head of China research for ING Barings, said that as China aims to keep growth above 9 per cent, the authorities "will probably cut interest rates sooner rather than later".

Expectations of a reduction in interest rates and speculation that Beijing might soon cut the required reserve ratio – the deposits Chinese banks must leave with the central banks as a proportion of their total deposits – were bolstered by another fall in inflation.

US hopeful on dissidents

By James Harding

The US embassy in Beijing said yesterday that it was hopeful it could persuade China to release jailed political dissidents ahead of President Jiang Zemin's summit with President Clinton next week.

A senior Chinese official left open the possibility of "medical parole" for political activists, but insisted that China would not bow to foreign interference on what it deems a domestic legal issue.

China's human rights record has dogged the Sino-US relationship since the 1989 Tiananmen Square massacre of democracy activists.

A senior US diplomat, who declined to be named, said China had not ruled out freeing democracy activists on medical parole.

"We have indicated to them that one of the most effective things that could be done to help neutralise the human rights question ... would be the release of some dissidents. We are hopeful," he said.

Chinese officials left room for a breakthrough, while maintaining the official line that such issues will be decided by the judiciary.

China has maintained that dissidents such as Wang Dan, the 27-year-old activist who came to prominence in 1989, and Wei Jingsheng, the long-standing thorn in the side of the Chinese Communist party and who was nominated for the Nobel peace prize once again this year, are common criminals. The Beijing leadership will not wish to be seen to pander to US diplomatic pressure.

Separately, Chinese and US officials in Beijing hinted yesterday that the two countries might reach agreement on the import of US nuclear power equipment when President Jiang meets President Clinton in Washington.

China's global role, Page 14

INTERNATIONAL ECONOMIC INDICATORS: **BALANCE OF PAYMENTS**

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1985=100.

UNITED STATES

	Exports	Visible trade balance	Current account balance	Ecu exch. rate	Effective exch. rate
1986	231.0	−140.6	−155.8	0.9836	81.4
1987	220.2	−131.8	−145.6	1.1541	71.9
1988	272.5	−100.2	−106.4	1.1833	87.0
1989	330.2	−99.3	−94.8	1.1017	70.0
1990	309.0	−79.3	−72.1	1.2745	66.7
1991	340.5	−53.5	−4.6	1.2391	65.7
1992	345.8	−65.2	−43.5	1.2957	64.4
1993	397.3	−98.7	−77.6	1.1705	66.3
1994	432.3	−127.0	−112.8	1.1857	65.1
1995	452.3	−122.8	−99.9	1.2928	81.2
1996	499.0	−135.8	−118.3	1.2526	64.4
3rd qtr.1996	122.8	−37.2	−34.0	1.2613	64.4
4th qtr.1996	128.6	−34.8	−29.4	1.2557	65.0
1st qtr.1997	140.8	−38.8	−34.1	1.1713	68.3
2nd qtr.1997	152.8	−36.7	−34.3	1.1386	69.2
Sept. 1996	41.1	−13.0	n.a.	1.2587	64.7
October	42.7	−11.1	n.a.	1.2538	65.0
November	42.9	−10.7	n.a.	1.2706	64.4
December	43.0	−13.0	n.a.	1.2428	65.5
January 1997	43.2	−14.3	n.a.	1.2105	66.7
February	46.9	−13.5	n.a.	1.1587	68.9
March	50.8	−10.9	n.a.	1.1447	69.5
April	50.7	−12.1	n.a.	1.1401	70.4
May	50.6	−12.6	n.a.	1.1444	68.9
June	51.5	−11.9	n.a.	1.1312	68.4
July	52.2	−14.4	n.a.	1.1011	69.2
August			n.a.	1.0695	70.7

JAPAN

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1986	208.9	94.2	87.2	165.11	127.7
1987	194.7	83.7	75.5	166.58	138.8
1988	218.7	79.8	67.0	151.51	153.7
1989	245.5	70.6	53.4	151.87	147.0
1990	220.0	50.0	28.5	183.94	132.5
1991	249.4	77.7	57.4	166.44	143.7
1992	256.6	96.2	86.7	164.05	150.7
1993	300.3	116.8	112.4	130.31	181.0
1994	325.0	121.7	110.5	120.99	194.9
1995	331.1	101.3	85.3	121.43	204.8
1996	319.8	66.6	52.6	136.24	177.7
3rd qtr.1996	78.7	15.7	13.2	137.43	176.9
4th qtr.1996	80.4	17.0	13.1	141.72	171.2
1st qtr.1997	83.3	14.7	13.1	141.82	164.3
2nd qtr.1997	97.8	25.0	24.0	136.15	168.4
Sept. 1996	25.4	4.9	2.8	138.24	175.7
October	27.1	5.5	4.4	140.92	172.2
November	27.1	6.7	4.7	142.64	171.3
December	26.2	4.8	4.1	141.59	170.2
January 1997	28.4	5.9	5.6	142.63	166.5
February	27.6	4.1	4.0	142.52	162.3
March	27.3	4.7	3.5	140.32	163.7
April	33.6	7.1	7.1	143.23	160.2
May	33.0	10.2	9.4	135.92	169.0
June	31.2	7.8	7.5	129.31	178.5
July	32.4	7.7	7.3	126.84	177.0
August	32.8	10.0	8.8	125.99	175.3

GERMANY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1986	248.7	53.5	41.8	2.1279	108.6
1987	254.4	56.8	40.8	2.0770	114.9
1988	272.8	81.4	42.4	2.0739	114.1
1989	310.1	65.1	51.5	2.0681	113.3
1990	324.6	51.8	38.3	2.0537	118.1
1991	327.8	11.1	−14.6	2.0480	117.1
1992	330.8	16.8	−15.0	2.0187	120.6
1993	325.2	30.6	−12.1	1.9337	125.3
1994	360.3	37.5	−17.8	1.8198	125.6
1995	404.5	46.8	−18.3	1.8508	132.1
1996	416.2	52.2	−10.4	1.8844	128.6
3rd qtr.1996	104.7	14.5	−6.5	1.8884	128.7
4th qtr.1996	105.9	13.9	−1.0	1.9217	127.0
1st qtr.1997	107.7	13.8	−4.8	1.9415	124.8
2nd qtr.1997	112.0	17.3	2.3	1.9511	123.3
Sept. 1996	34.5	4.8	−0.2	1.8957	128.3
October	35.8	4.9	−1.0	1.8157	127.3
November	35.4	4.9	0.0	1.9207	127.3
December	34.7	4.1	0.1	1.9266	126.2
January 1997	34.8	2.5	−5.5	1.9414	125.3
February	36.0	5.0	−0.8	1.9412	124.5
March	36.8	6.2	1.5	1.9418	124.5
April	35.7	5.8	1.8	1.9509	123.9
May	37.8	5.1	−1.4	1.9491	123.5
June	38.6	6.5	2.4	1.9534	122.4
July	38.8	5.6	−1.7	1.9722	120.6
August				1.9675	120.4

FRANCE

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exch. rate
1986	127.1	0.0	3.0	6.7946	102.7
1987	128.3	−4.6	−3.7	6.9265	102.7
1988	141.9	−4.7	−3.4	7.0354	100.6
1989	162.9	−6.3	−3.8	7.0169	99.8
1990	170.1	−7.2	−7.2	6.9202	103.8
1991	175.4	−4.2	−4.8	6.9643	102.1
1992	182.5	4.5	2.9	6.8420	105.4
1993	179.6	13.3	8.0	6.6281	109.1
1994	196.9	12.6	5.4	6.5659	110.1
1995	219.7	10.4	8.4	6.4460	113.4
1996	230.2	13.8	13.4	6.4068	113.3
3rd qtr.1996	58.1	4.1	4.9	6.4242	113.2
4th qtr.1996	58.5	3.9	4.8	6.4976	112.5
1st qtr.1997	59.4	4.8	7.1	6.5517	110.9
2nd qtr.1997	62.4	7.8	9.8	6.5788	109.6
Sept. 1996	18.3	1.0	2.7	6.4532	112.8
October	18.8	1.8	2.3	6.4770	112.8
November	18.7	0.9	1.0	6.5001	112.6
December	19.9	1.2	1.5	6.5158	111.9
January 1997	19.3	1.8	3.2	6.5512	111.2
February	20.0	1.6	2.9	6.5539	110.6
March	20.1	1.4	1.0	6.5502	110.7
April	20.9	2.3	3.6	6.5715	110.3
May	20.7	2.5	3.4	6.5725	110.0
June	20.9	2.8	2.8	6.5823	109.1
July	21.8	3.4	3.7	6.6534	107.8
August				6.6309	107.8

ITALY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1986	99.4	−2.5	−1.4	1461.8	101.4
1987	101.0	−7.7	−2.1	1494.3	101.1
1988	108.3	−8.9	−8.0	1536.8	97.7
1989	127.8	−11.3	−17.0	1509.2	98.8
1990	133.6	−9.3	−18.0	1523.2	100.1
1991	137.0	−10.5	−17.7	1531.3	98.7
1992	137.9	−8.0	−21.5	1591.5	85.8
1993	144.9	18.1	8.7	1836.7	80.5
1994	161.4	18.8	13.1	1908.6	77.0
1995	181.0	21.8	21.7	2106.4	69.4
1996	200.3	35.0	33.5	1932.1	75.8
3rd qtr.1996	47.8	11.3	11.4	1818.4	76.7
4th qtr.1996	53.4	9.2	8.2	1911.2	77.6
1st qtr.1997	47.2	5.1	7.8	1917.8	77.0
2nd qtr.1997	54.0	6.8	7.5	1924.6	76.3
Sept. 1996	16.0	1.4	0.8	1813.2	77.0
October	18.1	4.0	4.0	1911.4	77.5
November	17.1	3.0	3.0	1922.6	77.2
December	17.2	2.2	1.2	1899.5	78.1
January 1997	14.3	0.9	3.7	1896.7	78.2
February	16.0	2.0	2.0	1918.8	76.8
March	16.9	2.2	1.9	1937.9	75.9
April	17.8	2.1	1.1	1931.8	76.3
May	18.1	2.5	2.4	1925.6	76.3
June	18.3	2.1	4.0	1816.7	76.4
July	21.5	5.6		1920.1	76.1
August				1921.9	75.7

UNITED KINGDOM

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1986	108.3	−14.2	−1.3	0.6708	91.1
1987	112.3	−16.4	−6.8	0.7047	89.3
1988	120.9	−32.3	−24.8	0.6643	94.7
1989	137.0	−36.7	−33.3	0.6728	91.9
1990	142.3	−26.3	−26.2	0.7150	88.8
1991	147.7	−14.7	−11.4	0.7002	90.5
1992	145.9	−17.8	−13.8	0.7359	87.1
1993	158.0	−17.3	−13.2	0.7780	79.9
1994	174.1	−14.4	−2.1	0.7736	80.1
1995	186.9	−14.1	−4.5	0.8190	76.2
1996	207.2	−16.7	−0.5	0.8026	77.5
3rd qtr.1996	51.4	−3.8	−0.5	0.8113	78.8
4th qtr.1996	54.9	−3.4	0.7	0.7870	82.1
1st qtr.1997	58.4	−2.9	1.9	0.7186	87.0
2nd qtr.1997	60.9	−3.7	1.3	0.6960	86.5
Sept. 1996	17.3	−1.4	n.a.	0.8270	77.4
October	18.2	−0.9	n.a.	0.7934	79.4
November	18.1	−1.3	n.a.	0.7682	82.6
December	18.8	−1.2	n.a.	0.7485	84.4
January 1997	19.6	−0.8	n.a.	0.7238	86.2
February	19.8	−1.1	n.a.	0.7132	87.6
March	19.1	−0.9	n.a.	0.7127	87.5
April	20.5	−1.3	n.a.	0.6997	89.4
May	19.9	−1.0	n.a.	0.7006	89.0
June	20.5	−1.4	n.a.	0.6878	90.2
July	22.3	−0.7	n.a.	0.6592	93.9
August			n.a.	0.6670	92.1

Due to the introduction of the Single Market, EC countries are currently changing to a new system of compiling trade statistics. All trade figures are seasonally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF method (including carriage, insurance and freight charges). German data up to and including June 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade-weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.

NEWS: UK

Government unity strained by Emu

Uncertainty over single currency policy

By Robert Peston and David Wighton

The government's unity came under strain yesterday after weekend briefings by advisers to Gordon Brown, the chancellor, that be plans to rule out sterling's membership of a European single currency for the five-year lifetime of the parliament.

There were also signs that Tony Blair's close relationship with leading businessmen was at risk, as several rang ministers to complain about uncertainty over policy towards European monetary union.

A company director close to the Lahour leadership said he understood Downing Street's switchboard had beeo "swamped" with calls from anxious executives.

A minister said Mr Blair had been surprised by weekend press reports that Mr Brown planned to tell the Commons that no decision on joining would he made until after the general election.

"The chancellor told the prime minister be had to end speculation that the two of tbem were divided over Emu," said the minister. "He said be wanted to do this with an interview with The Times, but the outcome was something of a surprise."

The minister added that be would be extremely surprised if Mr Brown's statement to the Commons on Emu, due within four weeks, would be categoric on deferring an Emu decision until after the next election.

However, there were also signs that Mr Brown's apparent new position was not nearly as hostile to the single currency as it was widely interpreted to be.

His statement to MPs may include a commitment to strive to create the conditions for sterling to join shortly after the general election, around 2002, a colleague said.

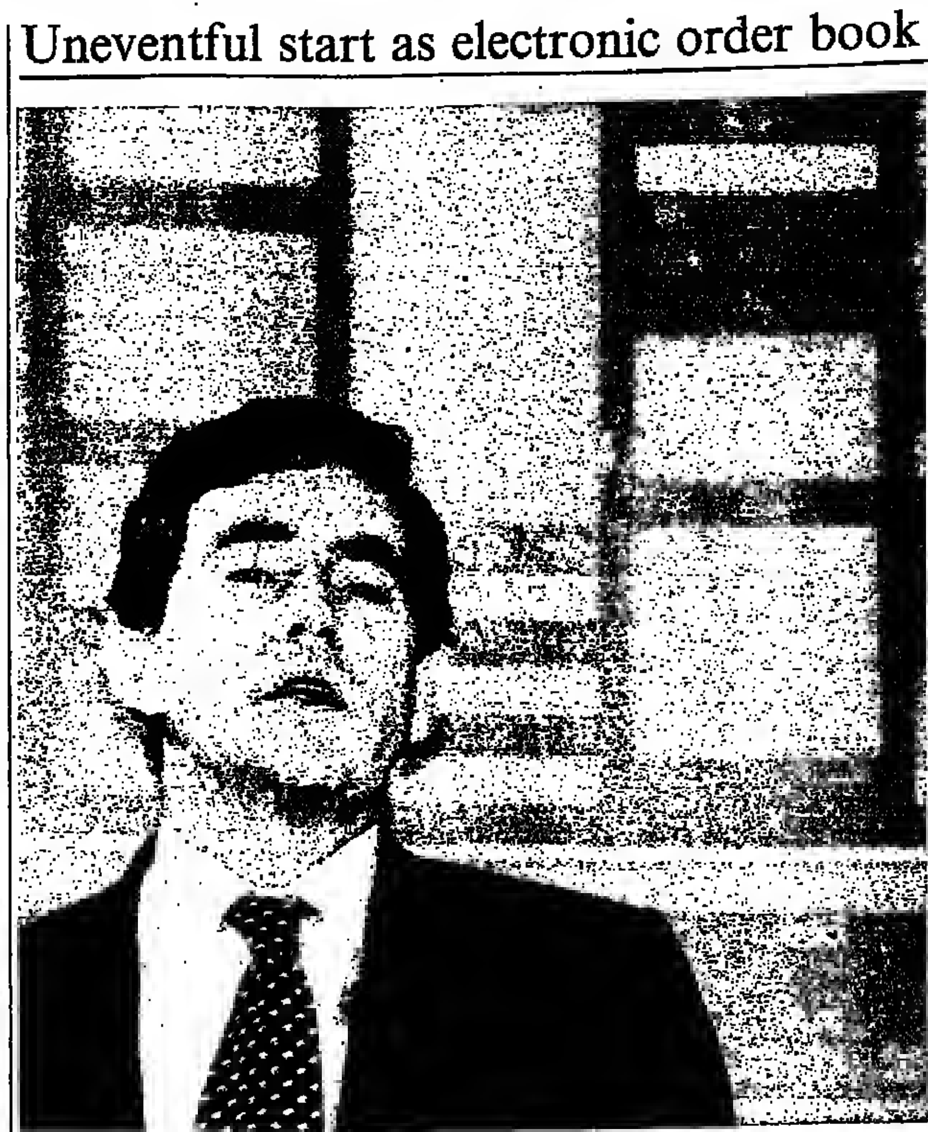
But in order to secure entry by the deadline, when notes and coins in circulation would be converted into Euros as an important final stage in monetary union, he needed a few years of calm, without incessant press speculation on timing of entry.

Mr Brown hinted at this strategy at the launch of the Stock Exchange's electronic trading system. "Britain will need a period of stability without continuing speculation while Britain endeavours to meet the five economic tests [for membership]," he said.

Yesterday sterling rose nearly 3 pfennigs against the D-Mark to close at DM2.88 in London, almost reversing the fall of three weeks ago when the Financial Times reported that the government was looking more favourably on Emn. Shares fell sharply at the opening hut the FTSE 100 index closed 60.1 points lower, a fall of 1.1 per cent, having been 118 down at one stage.

Labour supporter Chris Haskins, the chairman of Northern Foods, urged the government to back entry in principle and leave open the option of joining before the end of tbe parliament.

Uneventful start as electronic order book copes well with light trading



Press Association

Gordon Brown, the chancellor of the exchequer, after switching on the electronic system

New share deal system shrugs off uncertainty

By George Graham, Banking Editor

Tbe London Stock Exchange's new automated trading system got off to an uneventful start yesterday, as the market shrugged off uncertainties over whether the UK would join European monetary union.

The new electronic order book coped easily with light trading volumes and relatively low volatility after a shaky start.

Investors were slow to take to the new method of trading shares, though 100,000 shares of J. Sainshury, the supermarkat group, changed hands at the opening bell. In the first half hour of dealing, only about 25 per cent of tbe 3,000 trades were executed through the order book, with the remainder handled over the telephone in the time-honoured fashion.

"As a starting point in a very difficult market that is quite positive," said Martin Wheatley, head of market development at the exchange.

Over the day, 208m FTSE 100 shares changed hands – a very low level of turnover – with 88m shares executed through the order hook. Stock exchange officials would have been ecstatic to have had 50 per cent of trades going through the order book on the first day and were generally content with tha 42 per cent they achieved.

"For the first day of a new system, I would think the Stock Exchange would be very pleased," said Adrian Pinkus, co-head of UK equities trading at Merrill Lynch, one of the largest marketmakers.

"It's gona incredibly smoothly," added Richard Balarkas, chief operating officer for equities at BZW, the investment bank and stockbroker recently put up for sale by Barclays.

Stephen Kendall, head of European trading at NatWest Markets, the investment banking arm of National Westminster Bank, said the large spreads between buying and selling prices narrowed over tha course of the day.

"Considering the macroeconomic side, with the Emu debacle over the weekend, we have had fairly light volumes, which has aided the transition to tha order book," he said. "Clients have been very sensible and not flooded the market with orders."

The spread between huying and selling prices was wider than usual in early trading, averaging around 0.77 per cent early on, compared with an average of 0.6 per cent under London's traditional marketmaking system. The exchange said around half of all FTSE 100 stocks traded with a spread of less than 0.5 per cent during the day. Trading was hriefly suspended in four shares – Railtrack, Wolseley, ICI and Hays – as a result of the exchange's new rule calling for a 10-minute halt wben a price moves more than 10 per cent from its opening level.

Fears for jobs in state savings agency deal

By James Mackintosh

Many of National Savings' 4,000 staff could lose their jobs if tbe government accepts offers to privatise the agency's administration, according to some bidders hoping to run its £100m ($162m) back office operations.

National Savings, the government owned savings scheme, which raised £2.2bn last year towards servicing the national debt, has tried to improve its efficiency in recent years, but has been hampered by Treasury-imposed spending limits.

The agency has attracted four hidders for a public-private partnership in an attempt to raise the capital to update its ailing computers and business systems.

The four bidders for the work are EDS, the US company operating Inland Revenue and Department of Social security contracts, an ICL-led consortium, Siemens Business Services and Equip, a consortium led by AT&T and Capita.

At least two of the bidders hope to move the agency's civil service (state administration) workfoce into the private sector as a preluda to redundancies. However, there is a hope that the bidders – among them many of the biggest names in business services – could relocate staff within their organisations.

National Savings plans to reduce the shortlist of bidders to two by December, but said it had not decided what level of private involvement it wanted. "Within each bid, there is a variety of options, including business expansion proposals involving the private sector taking on civil service staff] that we asked for," it said.

The team leader of one of the bidding groups pointed out the high costs of paying off civil aervants and the damage it could do to the public face of the organisation.

None of the hidders would comment publicly on how many staff may ba shed under their bids. But Cornel Wight at ICL, which is leading a consortium including Coopers & Lybrand and Experian, said it was hoping to take on almost all tae employees.

Biggest pro-British party walks out after row over republic's claim to region

Unionists quit N Ireland talks

By John Murray Brown in Belfast

The pro-British Ulster Unionists walked out of the Northern Ireland peace talks yesterday after a row over the Irish Republic's territorial claim to the region.

On the first day of talks on relations between Northern Ireland and the republic, the UUP, the region's biggest party, accused Irish negotiators of refusing to give a commitment to amend Dublin's claim over Northern Ireland ahead of a final settlement.

The UUP is under pressure from party dissidents and the Democratic Unionists – hardline opponents of a united Ireland – to pull out of the talks altogether. Yesterday's move was seen as heading off critics before the party's annual conference on Saturday.

However, the incident provides a reminder of the difficulties ahead for the multi-party negotiations.

David Trimble, the UUP leader, led his team out of the talks "for a period of reflection", after David Andrews, the Irish foreign minister, said he could not give an undertaking to repeal articles 2 and 3 of the republic's 1937 constitution, which define the Irish nation as the island and its islands.

In a bid to reassure unionists, Mr Andrews said later that "of course articles 2 and 3 will be discussed during the substantive element of these talks". But he said Dublin would make no commitment "until we get down to the nitty-gritty of negotiations".

John Taylor, the UUP deputy leader, said Dublin "clearly did not understand the sensitivities involved". He quoted a speech by Tony Blair, the UK prime minister, in which he said it would be helpful to have the changes in advance of a final settlement.

Mr Taylor said the constitutional claim was the main obstacle to improved co-operation between Northern Ireland and the republic.

Irish officials say any move would have to be part of the negotiations and not a unilateral gesture. Moreover, any change to the constitution would have to be endorsed by a referendum.

Sinn Féin, the political wing of the Irish Republican Army, is widely expected to oppose any change. It does, however, regard the claim as little more than "verbal republicanism".

But for moderate nationalists, the Irish government's claim offers reassurance to those who see themselves as Irish despite being citizens of the UK.

A Dublin Supreme Court decision in the wake of the 1985 Anglo-Irish Agreement ruled the Irish government had a "constitutional imperative" to pursue its claim.

Mr Taylor said the UUP wanted "a letter or statement" setting out Dublin's position before the party would rejoin the talks.

Gypsy crisis highlights asylum policy

Reuters

A Slovakian gypsy family in Dover. The area is struggling to cope with 180 asylum seekers

> Labour has hardly changed a system that it criticised in opposition, says **Edward Mortimer**

The crisis over the weekend in the English Channel port of Dover – where the local authority has appealed for government help to house more than 180 gypsy asylum seekers from central Europe – highlights an area of policy that Labour criticised in opposition but has yet to change in office.

Five months into the premiership of Tony Blair, thousands of people who applied for asylum after arriving in the UK, or whose application has reached the appeals stage, are still denied welfare benefits.

In opposition, Labour attacked the withdrawal of benefits from such people, promising to "operate a system in which genuine asylum seekers are treated with respect and not left destitute". It also pledged to "avoid the children of asylum seekers becoming the responsibility of local authorities".

But it is proving harder than expected to clear up what Mike O'Brien, the immigration minister, calls the "mess" inherited from the former Conservative government.

Similarly, asylum seekers are still being sent back to supposedly safe "third countries" before their appeal has been heard, despite earlier promises to restore "the right to remain in Britain pending appeal".

Meanwhile, hundreds of asylum seekers not charged with any crimes are still detained in common law prisons and detention centres, although Jack Straw, the home secretary, had promised to hold "the small minority of asylum seekers in breach of UK immigration laws ... in specific detention centres rather than prison, so far as possible".

Labour ministers have also followed Conservative precedent in imposing a visa requirement on countries that suddenly produce an increased number of asylum seekers. Mr O'Brien hinted yesterday he might take similar action on Czechs and Slovaks to deal with the latest crisis, though that would be hard to square with the UK's policy of encouraging closer integration between central European countries and the EU.

Ironically, the withdrawal of benefits has resulted in increased costs for both state and local authorities, which are legally obliged to assist those with "no other means of support". The Refugee Council, government-funded but independent, gives the cost of keeping an asylum seeker on benefits as £106 ($171) per week.

Mr O'Brien told a fringe meeting at last month's Labour party conference: "We don't want to see any asylum seeker left destitute. But this involves a whole range of government departments ... We have to get it right: we're not doing any knee-jerk solutions."

While conceding that some asylum seekers are "in dire need", he refused to commit himself to restoring the old benefits system.

New legislation would inevitably take time, Mr O'Brien said. But he gave two examples of areas in which changes could be made without legislation. One was detention, a review of which is due to be completed this year. The other was the "white list" of countries whose nationals are subject to a "fast track" appeals procedure because there is supposedly "no serious risk of persecution". This system is still in use, although Mr Straw had promised not to operate it.

Consumer optimism starts to cool

By Robert Chote

Higher interest rates and Budget tax increases appear to have slowed activity in the housing market and set consumer confidence on a downward trend, three surveys suggested yesterday.

The European Commission's monthly poll of UK consumers showed confidence slipping further from a peak recorded in August but remaining well above the level the Labour government inherited from the Conservatives in May.

People are less confident that the economy will improve in the coming year than they were in September, although optimists still comfortably outnumber pessimists. Fewer people also think now a good time to make big purchases.

"The peak in consumer confidence may be behind us, now that the bulk of the building society windfalls has been paid out and mortgage increases are beginning to feed through," said John O'Sullivan, economist at NatWest Markets.

The Credit Card Research Group, the payment card industry association, said its latest survey of credit and debit spending showed "tentative signs of faltering consumer confidence".

Although debit card spending at £3.7bn last month was 18 per cent higher than in September 1996, the increase was well below the 30-35 per cent growth rates of recent years. Credit card spending at £4.54bn was £100m lower than in August, traditionally a quiet month. Elizabeth Phillips, director of CCRG, said this could indicate "the top of the boom has already been reached".

The housing market slowed in the summer, according to a survey of more than 250 estate agents. The Royal Institution of Chartered Surveyors blamed the death of the Princess of Wales, hot weather and the impact of the Budget.

UK NEWS DIGEST

Bonn accused of coal subsidy

The German government could face claims for damages of more than £50m ($81m) from UK companies which say it has been "illegally" subsidising its coal industry. Celtic Energy, a South Wales coal producer, is claiming damages of £20m, the amount it says it has lost over the last two years because Germany has paid subsidies totalling £100m to two mining groups, enabling them to undercut prices for anthracite coal by about £5 per tonne. Celtic's claim has gone to the European Commission, which has given Germany until November 4 to answer the charges. Mr Keith McNair, Celtic chief executive, said the unfair competition threatened the jobs of 3,200 miners, nearly half of whom were employed or sub-contracted by his company.

Tower Colliery, another UK coal producer, said it would consider whether to seek compensation when the results of Celtic's appeal were known. *Juliette Jowit*

■ ARCHITECTURE

British Museum granted $25m

Redevelopment of the British Museum, one of the main projects planned to celebrate the millennium, became a near certainty yesterday with the announcement of a £15.7m ($25.4m) grant from the national lottery. Almost £86m has now been committed to the £97m scheme. Sir Norman Foster, the architect (left), is planning to reclaim the Great Court of the museum, a feature of Robert Smirke's original 1823 design, but long hidden beneath later buildings. There will be lecture rooms below the courtyard and the whole area will be covered with an opaque glass roof. *Antony Thorncroft*

■ GREENPEACE

Oil licence fight to go to Brussels

Greenpeace, the environmental pressure group, is to take its fight over the exploration of North Atlantic oilfields to the European Commission rather than the UK courts, it said yesterday. Following last week's High Court defeat over its challenge to the legality of exploration licences granted to 30 companies, Greenpeace was advised any attempt to take the case to appeal was unlikely to succeed because of the scale of investment already made in the fields. *John Mason*

■ BANK STRIKE

Barclays disputes union claims

Barclays Bank disputed claims from two finance unions yesterday over the impact of a second 24-hour strike in a long-running pay dispute. The unions, Unifi and Bifu, said more than 28,000 staff walked out. Barclays described some of the union claims as "nonsense" and said there was less support than on Friday. *Andrew Bolger*

TECHNOLOGY

Volcanic vent systems beneath the ocean may give clues about the origins of life, says **Bruce Dorminey**

The secrets of the deep

No one really knows how life on earth began. But many oceanographers believe it happened in almost total darkness in and around deep sea hydrothermal ecosystems that lie along the edges of the planet's ever-shifting tectonic plates.

On land, these volcanic vent systems would be comparable to geysers. Yet several kilometres below the seabed, at hundreds of bars of pressure and several hundred degrees centigrade, they turn seawater into an aggressive metal-rich solution capable of creating faults, fissures and rifts that can extend to the very mantle of the planet.

This fracturing and faulting allows the seawater to penetrate deeper into the earth's crust and drives a never-ending cycle of hydrothermal activity. In most cases, it is also part of the process by which magma, the fluid material which cools to form lava and other igneous rock, creates new crust, causing the seafloor to spread at rates of up to 18cm per year.

The first such deep sea hydrothermal site was found in 1977, when a team led by Jack Corliss, an oceanographer and former Oregon State University professor, discovered giant worms thriving in tepid, yet luxuriant, ocean bottom water near an undersea feature known as the Galapagos Spreading Center, off the coast of South America.

Two years later, the first high temperature vent, along with mounds of copper, iron and zinc sulfide precipitate was found on the East Pacific Rise, an undersea ridge near the Gulf of California.

This July, researchers aboard a manned French submersible discovered tens of tree-sized vent chimneys spanning a 100sq m area in what is the Atlantic's largest known hydrothermal vent field. Lying along a 200km segment of the Mid-Atlantic Ridge southwest of the Azores, the Rainbow vent field is one of perhaps several hundred sites that dissect the Atlantic and the Pacific along a 60,000km continuous ocean-ridge axis.

Seawater spews out of magma chambers at temperatures above 315°C, laced with hydrogen sulfide and manganese. As it erupts through the vents and into the cold ocean bottom water, the black metal-rich sulfide and oxide particles precipitate to form chimneys or "Black Smokers."

"The upthrust from the vent chimneys and their plumes can be enough to toss around a manned submersible like a coracle in rapids," says Chris German, a marine geochemist at the Southampton Oceanography Centre (Soc) in the UK.

"The plumes can range up to 100m thick and the chimneys themselves are frequently about the size of a reasonably-sized tree. But by 100m-300m above the seabed they run out of energy and are dispersed by prevailing ocean currents."

First evidence for the Rainbow field came from a 1994 Soc chemical survey showing strong signals along a 10km stretch of the ridge-axis. This summer, Bridget, a £200,000 Soc tathered vehicle carrying real-time chemical, physical and optical sensors, narrowed the search area to 400sq m. Then France's Nautile, built and operated by Ifremer (Institute Français pour la Récherche at L'Exploitation de la Mer) was directed to the oceanfloor ridge to discover the vent site.

Once sites have been initially surveyed, vehicles such as Abe, a $250,000 (£156,000) two-ton Autonomous Benthic Explorer, carry out detailed 50sq km ocean-ridge surveys at depths of up to 6,000m. Developed and constructed by the Woods Hole Oceanographic Institute in Massachusetts, Abe can operate up to six weeks at a time while navigating via previously installed high-frequency acoustic beacons that it uses to guide itself around the seafloor.

Meanwhile, Chris Fox, a marine geophysicist at the National Oceanic and Atmospheric Administration's Pacific Marine Environmental Lab in Oregon, is studying new ocean-ridge volcanic eruptions as part of its $3m Vents program to understand undersea vulcanism better.

It has tapped into Sosus, the US Navy's $16bn Sound Surveillance System, which was long a staple of Cold War submarine detection technology in the northern Pacific and Atlantic. This gives NOAA the ability to hear and pinpoint volcanic eruptions from all over the North Pacific.

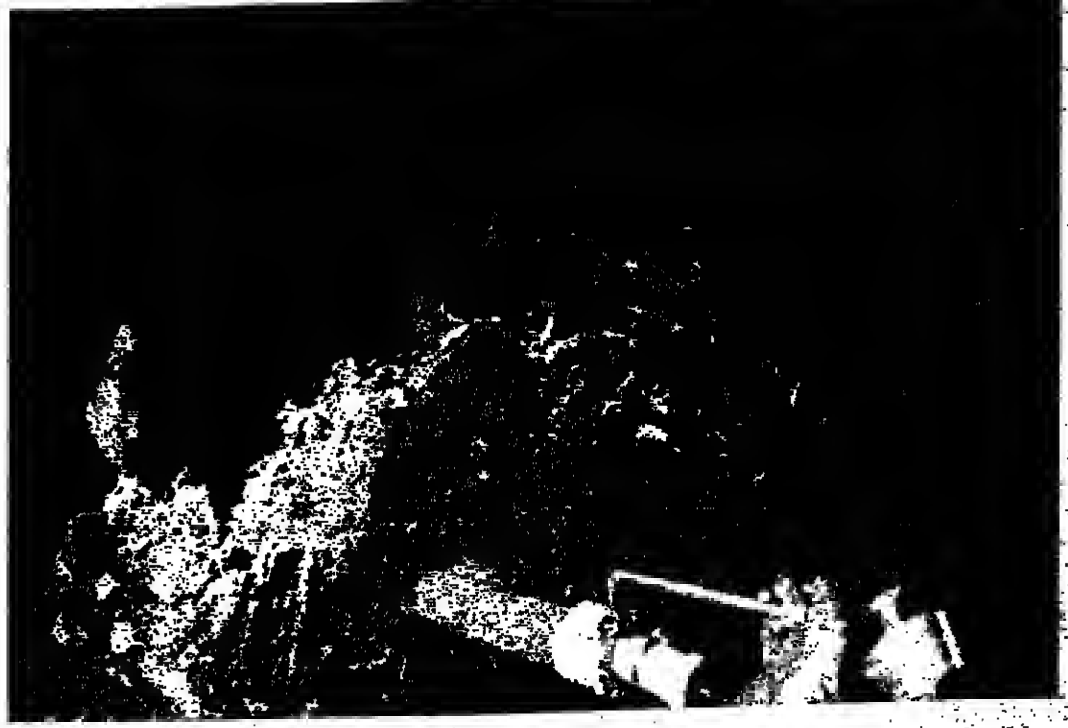
Based on conventional underwater telephone cable technology, Sosus uses large ceramic underwater hydrophones (the underwater equivalent of a microphone) to listen as undersea acoustic pressure changes generate current that is sent to shore with the help of electronic repeaters and amplifiers.

For areas not covered by Sosus, NOAA has developed portable battery-powered $40,000 hydrophones, six of which are deployed in the South Pacific. Sampling acoustically 100 times a second, the phones are anchored to the seafloor and maintained at 500m beneath the surface, where they monitor and store 10 gigabytes of data for up to a year at a time.

Yet even with such technology, Hans Jannasch, a chemical oceanographer at the Monterey Bay Aquarium Research Institute in California, views current methods as insufficient to understand fully how the hydrothermal cycle works. This is particularly true for areas where the magma from the earth's interior is coming up fastest. The Mid-Ocean Ridge south of Easter Island, off the coast of Chile, is spreading up to 18cm a year, for example, while parts of the Mid-Atlantic Ridge only spread 1cm a year.

The Monterey group is using in situ chemical analysers fitted with osmotic pumps to study fast-moving ridge segments. These can be deployed for long periods.

Even so, Dr Jannasch says: "We're getting a biased view of the ocean. Things happen quickly when a new vent system forms and they don't happen when you're down there, so we need to deploy more instruments for long-term monitoring throughout the year."



Smoke signal: Saracen's Head vent at Broken Spur, Mid-Atlantic Ridge

Bramley Murton/Southampton Oceanography Centre

Marine market makers

There is commercial potential in micro-organisms from hydrothermal sites

Cradled in ons's palm, it has the texture of an altogether insignificant and rather lumpy cross between sugar and cotton. Yet this chsmically complex natural polysaccharide may end up as a new hinding agent in cosmetics.

Extracted some eight years ago from *Alteromonas macleodii*, a micro-organism living near a hydrothermal vent field in the Pacific's North Fiji basin, it is an example of an emerging market derived from lifs forms which flourish in this hostile deep sea environment. Potential commercial applications range from cosmetics, adhesives and pharmacenticals to biodetoxification of waste water pollnted with zinc, cadmium and lead.

The polysaccharides are complex sugar polymers that sometimes have hundreds of thousands of chemically repeating units. As a result, they are almost impossible to synthesise. And it is still not fully understood what purpose they serve in the lifs of the micro-organisms.

"Polysaccharides from extreme environmenta offer greater diversity of properties than anywhere else in the biosphere and those from deep sea hydrothermal vents remain virtually unexplored," says Richard Lntz, a marine biologist and director of the Center for Deep Sea Ecology and Biotechnology at Rutgers University in New Jersey.

Their host micro-organisms grow in temperatures ranging from 2°C – 110°° °C, under high pressure and acidity, in super-saturated salt and often without oxygen, so they can be difficult to reproduce in lab conditions.

Ifremer, France's National Marine Research Institute, has a team of researchers collecting such bacteria samples, which are then cultivated in liquid glucose mediums.

So far, it has identified 20-25 polysaccharides and has patented four, with a patent pending on the extract from *Alteromonas macleodii*. As yet there has been no licensing, even though Ifremer remains in touch with companies in the French cosmetics, food and pharmaceutical industries.

Part of the problem lies in offering sufficient quantities to be worthwhile for industry. It takes two days to prodnce five to 10 grams of the *Alteromonas* polysaccharide for each litre of the culture medium, whereas to be truly economical, Ifremer would like to increase the yield by a factor of 10.

Even so, there is strong interest in the collection and cultivation of all manner of extracts from such deep-sea micro-organisms. Rntgers, together with the US National Cancer Institute, is also screening 300-500 extracts from a large spectrum of vent invertebrates and micro-organisms. They hope to find anti-cancer properties among samples collected this past summer along the Mid-Atlantic Ridge.

Meanwhile, a polysaccharide isolated from Vibrio diabolicus, another vent micro-organism, could offer a cheaper, more biologically active and efficient alternative to Heparin, a naturally derived anti-coagulant manufactured from swine.

Until now, most successful applications from deep-sea vent micro-organisms have been in reagent enzymes used for bio-molecular research and in processes related to identifying genetic fingerprints of criminal suspects.

The nucleic acid used in such DNA amplification has to be recycled up to 30 times in temperatures up to 95°°C. Some sxtreme hyper-thermophilic organisms can even survive at 110°C, so the enzymes derived from them are ideal for the task.

Ifremer recently sold to Appligen-Oncor, the Strasbourg-based hiotechnology company, three enzymes derived from vent micro-organisms that will also be launched soon as DNA amplifiers. Other thermostable enzyms applications inclnde detergents, conversion of cellulose into ethanol, biobleaching of pulp for paper production and oil recovery.

"These enzymes [currently] represent markets of only $1m (£625,000) to $5m per year," says Eric Mathur, a molecular microbiologist and director of the molecular diversity Group at Diversa, a San Diego-based biotechnology company. "[But] these markets are the tip of the iceberg."

Diversa skips the culturing process of more traditional polysaccharide and enzyme harvesting-methods by targeting genes encoded by the organism's DNA. That allows the capture and fragmentation of the organism's DNA, thus enabling cloning. Then once the fragments are cloned, they are transplanted into generic host strains like e-coli and bacillus.

Now sampling from deep-sea vents along the East Pacific Rise off the coast of Costa Rica, Diversa is using this recombinant approach to increase significantly polysaccharide and enzyme yields.

Dr Mathur believes a plethora of beneficial and marketable enzymes and polysaccharides remain in micro-organisms that are yet to be discovered around hydrothermal vents. The challenge, however, remains to harvest these micro-organisms in conditions which are extremely costly and difficult to access.

BD

The snap happy royals

William Packer on a delightful collection of intimate portraits

The collection and archive of photography held at Windsor Castle, which amounts to some 150,000 images, is not just one of the largest single departments within the Royal Collections, but one of the most significant of its kind in the world: quite possibly the oldest and certainly the most particular. For the age of photography began more or less with the reign of Queen Victoria, and Prince Albert, with his enquiring mind and fascination with technologies, was bound to be intrigued by the new medium.

He was one of its earliest patrons, the first member of the royal family to sit for the camera (1842), and soon taking up photography himself with enthusiasm. And from that time on, following Prince Albert's example in both respects, the leading photographers of the day have been commissioned, or their work collected, while members of the royal family themselves have proved more than competent practitioners.

Thus the collection embraces photography in its every aspect, from prime examples of the work of the early Victorian masters that are great works of art in themselves – if we are to allow the medium the status of art – to family albums and press documentation. While the weight of attention represented by the collection over the years has rested, naturally enough, on the members of the royal family and the royal round of duty and ceremonial, it has never been exclusively so. Indeed, no aspect of the collection is more intriguing than its reflection of the world at large, and not just in terms of landscape and topography but of personality, from the great men and women of the day to personal friends and characters.

It is upon this general aspect of personality, both royal and non-royal, that the curator of the collection, Frances Dimond, has concentrated in making the selection that is now on view in the Queen's Gallery. At a mere 35 items, it is hardly copious, let alone comprehensive, but it does offer a most decided and particular taste of that larger, as yet largely unseen store.

For the most part she has avoided the obvious and familiar iconic images, and also the work of great photographic stars – which is not to say she has included no great photographs nor remarkable images. She has gone rather for the half-private, half-formal study, from the 1850s to the 1930s. Almost all are studio shots, or at least carefully posed and considered, but within that accepted convention, oddly intimate and even relaxed.

As Dimond puts it, they were "taken for presentation or for family records ... therefore likely to have been pleasing to the sitters, whether ... created to express personality or achievement, to conform to ... reputation, or to fit the public concept of how someone in their position should look." Even so, she says, they occasionally reveal "traits of character which they may not have been aware they were displaying at the time." It is this immediacy which touches us so directly across the years.

There in a row stand the Princess Royal's bridesmaids in 1858, a bevy of pretty young mid-Victorian ladies in their white crinolines and floral attributes. The hand-coloured version, mimicking the water-colour that might have been something else altogether, softens their features and generalises their presence. It is the untouched original beside it that rivets the attention, fixing the moment of a downcast eye here, a half-smile there, no matter that the girls are all posing so dntifully.

A demure Lady Elizabeth Bowes-Lyons, now the Queen Mother, photographed in 1923

The prime minister, Arthur Balfour (1904) leans stiffly on his elbow for his portrait, his very awkwardness perversely, disarmingly natural. The young Queen Alexandra, as Princess of Wales (1887), so slim and wistful, leans more lightly, hand to ear. Cecil Rhodes in his shirt-sleeves simply stares back at us, impassive (1901). King George V, then Duke of York (1897), strikes a match to light his cigarette. Captain Speke, the African explorer (1859) stands with self-conscious negligence against the most improbable studio backdrop of lake and mountains you ever saw. Heavily tinted-in, the demure Lady Elizabeth Bowes-Lyon (1923) sits for her portrait at her engagement to the Duke of York.

The Grand Duchess Olga (1887), as serious as only a five-year-old can be, sits quietly holding her doll. She grew up to be a painter, and was later photographed in her smock at her easel io the garden by that keen photographer, Queen Alexandra. But the most captivsting image of all, the perfect family photo, is of Lady Fitzgerald (1934) seeing her great-grand-son held up by his mother, her grand-daughter, to bis laughing, admiring grandmother, her daughter, if you follow. It is not a great work of art, perhaps, but a work of art even so, for being so contrived, and yet so human and in itself so right. Such, time and again, is the story of this delightful sbow.

Presenting an Image – photogrsphs from the Royal Photogrsphic Collection at Windsor Castle: The Qneen's Gallery, Buckiogbam Palace, Loodon SW1, until January 4; catalogne sponsored hy Kodak.

Ballet/**Clement Crisp**

Essential Balanchine

Birmingham Royal Ballet has acquired the Stravinsky/Balanchine *Orpheus*, and we rejoice. This masterwork has not, as I recall, been seen in Britain since the first visit of the New York City Ballet in 1950. Now, as then, it presents us with a ritualised view of the tragedy, simple and purged of excess as Isamu Noguchi's great design, pure and succinct as Stravinsky's score.

Like the pared-to-the-bone shapes of Orpheus' lyre and the mask that blinds him, or the elemental rocks of the setting and the terrible appearance of the Furies, dance and music resonate in our understanding. It is a Noh play in the concentration of its effects and in the stylisation of its action, and the Birmingham cast are well attuned to its gestural precision and densely-weighted meaning.

I thought Thursday night's first performance at the Birmingham Hippodrome absolutely worthy. Joseph Cipolla was Orpheus, and like Nicholas Magellanes who created the role, he conveys anguish with grand simplicity – the moment when he must look at Eurydice is as if torn from him. Catherine Batcheller may seem a little tall for Eurydice's choreography, but she catches the passion that must underly the dances. Andrew Murphy was excellent as the dark Angel – a role oddly ambiguous, even menacing, and exactly achieved here. From the entire cast, from the Birmingham Sinfonia under Paul Murphy, serious and entirely convincing performance. The myth is made new for us, and made urgent.

Paul Murphy was also a vital participant in the revival of *Serenade*, which opened this Balanchine triple bill. He revealed the music's muscle, with taut rhythms, a quick pulse (how good that there was no Russian soul wallowing in sentiment), and the dance sprung fresh, clear, still astonishing in its design as in its sensibility to the music's impetus. After 64 years, it may seem a rite like *Orpheus*, but it is the loveliest of initiations into classic dancing and Andrea Tredinnick, Dorcas Walters (luscious pirouettes) and Monica Zamora were its admirable heroines.

This Balanchine-fest – how welcome when done with such shining devotion – ended with *Four Temperaments*. This is essential Balanchine, made in 1946 and as pertinent today as it was then in saying what academic dance can aspire to. Its four "humours" – Melancholic, Sanguinic, Phlegmatic, Choleric – were well done: I much admired the way David Justin gorged himself on the stage-space. There were moments when the accompanying girls rushed their fences and scurried through steps, but the staging is clear, true. And the soaring, prophetic end – Balanchine and his dancers rising into the Empyrean of the next decades – thrills, as it did all those years ago, by its inevitable and irresistible power. How good that BRB has staged these sublimities.

Concert/**Richard Fairman**

Brandishing the stars and stripes

Ask an American commentator wbere tbe news is to be found in the US musical world and the answer is likely to come back: "Wasbiogtoo". The National Symphony Orchestra, the US capital's orchestra, has a new music director in Leonard Slatkin and high hopes for wbat he might achieve there.

The orchestra's receot history has oot been without its brighter moments, but a change in leadership was overdue. For 17 years, the music director of the NSO was Mstislav Rostropovich, a great musician, but not necessarily first choice as a long-term orchestral trainer. It is generally agreed tbat be bas left tbe orchestra with a bigh profile, thanks to its recording schedule and overseas tours, but with work to he done on the basics.

Slatkin, who has proved himself at the Saint Louis Sympbony, knows that is an ongoing project for the years ahead. But he clearly wanted to establish his presence early on and is taking the NSO on a European tour. For its London date at the Royal Festival Hall on Friday, the oew all-American team introduced themselves with an all-American programme.

This had two advantages. First, it discouraged comparisons with other leading orchestras in the standard classics; and second, it played to Slatkin's strength. No other living conductor is a more energetic champion of American music (Slatkin was artistic director of the 1994 Festival of American Music at the South Bank Centre in Loodon).

Friday's programme included two archetypal American composers. The coocert opeoed with Ives's most famous two sbort pieces, *The Unanswered Question* aod *Central Park in the Dark* (good spatial effects, tangible atmosphere) and ended with Copland's brash, open-air, super-confident Third Symphony. Slatkin does oot play either purely for its sensatioo value, but keeps a grip on the music that is strong and dynamic. The Copland came across as a real symphony, not just a showpiece, played to the hilt despite some occasiooally ragged ensemble.

Io betweeo, we had the Coocerto for Percussion and Orcbestra by Josepb Schwantner, written in 1995 and performed here by the popular and energetic soloist, Evelyn Glennie. The outer movements degeoerate into busy oote-spinning, but the slow movement produces an exotic climate in whicb the many percussion sounds headily fill the air: vibraphone, cow-bells, crotales, and a tam-tam immersed in a water-filled kettledrum (the last only briefly – a shame). Finally, two blazing extras: a fun minuet by Leroy Anderson and a roistering march by Souza. Why are American orchestras so good at encores?

The NSO's 1997 European tour sponsored hy David and Margaret Cole.

Opera/**Andrew Clark**

Russians rare and bare

We need companies like the Helikoo Opera of Moscow, and in the UK we don't have one. All the more reason to welcoms it to ths Queen Elizaheth Hall in Loodon last weekend.

Helikon was founded in 1990 hy the young Russian producer Dmitry Bertman. Flexible and inexpensive, it aims to provide a radical alternative to the big companies, stripping away the traditional trappings and substituting a rare theatrical intensity. Unlike Opera Factory, its UK cousin, Helikon has woo enough state backing to become a permanent company. And unlike Moscow Chamber Opera, to which it is spiritual heir, the members of Helikon can sing every bit as well as they act.

There is one drawback: Helikon's productions are self-styled "arrangements". Swingeing cuts, truncated orchestrations and free interpretations are normal practice. The fact that such factors hardly diminished the pleasure of thsir London performancea shows what a vital force Helikon has become.

The double-bill of *Maddalena* and *Mavra* was especially valuable, because these shavings from two masters' tables are so little known. Composed early in Prokofiev's career but unperformed in his lifetime, *Maddalena* came to light only 20 years ago, after his widow emigrated to the west and gave the score to Edward Downes for completion. In concert or on record, it comes across as a harmonically adventurous precursor of *The Fiery Angel*. The problem for the stage director is that it has an unfinished, contrived atmospbere. There are too many long, disconnected monologues; the whole piece hangs in the air.

Discarding a conveotional narrative approach, Bertman opted for pure symbolism, supplementing Prokofiev's love triangle with a silent fourth cbaracter – the heroine's mysterious, masculine alter ego. Built around a frame of revolving panels and a handful of Venetian artefacts, the production was never less than interesting, but hardly calculated to enlighten a noo-Russian aodience.

Mavra, by contrast, came across with a piquant punch. This petit-bourgeois satire is a product of Stravinsky's Parisian maturity, its flippant sophistication all the more effective for its brevity. Bertman took it at face value: the acting was loud hut irresistihly witty, with a flavour of comic improvisation which made everyone feel party to the conspiracy.

The Queen of Spades took us to the heart of Helikon's concept of "cbamber musical theatre", and here we were on mucb more controversial territory. By redrafting Tchaikovsky's prohlematic masterpiece as a "card game with one interval", Bertman turns it into a pocket opera, with no curtain, cborus or comprimarios. Worst than that, he does not remain true to the spirit of the story.

Set in an imperial drawing-room, the drama takes on the atmosphere of a psychological battleground between Lisa, Herman, Yeletsky and the Countess – the latter a vampish aristocrat who seduces Herman in the bed-room scene and later appears to him as a ghost-like nude. The final act is a solo scene for Herman, reducing Tchaikovsky's climax to a whimper.

Nevertheless, tbe interpretation was all-of-a-piece. There were some hrilliant aperçus, such as the crackly transmission of the Lisa-Pauline duet by wind-up gramophone – distancing it from the stage-action just as the music is distanced from the style of Tcbaikovsky's time. And the Helikon singers gave performances of extraordinary concentration, relating to each other, and to tbe audience, with a flair rarely seen on the opera stage.

Acting like a statuesque young Anja Silja, but with a large, soulful soprano, Natalia Zagorinskaya was equally effective as the tortured Lisa and the indifferent *Maddalena*. Vadim Zaplechny's burly, baby-faced Herman was no less fascinating: a wonderfully free tenor voice, used with musical intelligence and dramatic temperament. In *Mavra*, Elena Kacbura was the slim, sexy Parasha, Sergei Yakovlev a swaggering Hussar. Tbe orchestra, with its unmistakeably Russian-sounding winds, was conducted by Kiril Tikhonov, an old routinier who never sold the music short.

Sponsored by *Smirnoff*, as part of the Dimensions festival.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-551 8911
Lander-Graham-Marin: Dutch National Ballet programme of four 20th-century works – Etudes, Lamentation, Embattled Gardsn and Groosland; Oct 21

EXHIBITIONS
Van Gogh Museum
Tel: 31-20-570 5200
Auguste Préault (1809-1879): Romanticism in Bronze. 75 sculptures and medallions by the nonconformist whose works, during his lifetime, were regularly rejected by the Salon jury. This display includes important works produced during the 1830s and 1840s; to Jan 11

■ BERLIN

CONCERTS
Konzerthaus Tel: 49-30-203090
Berlin Symphony Orchestra: conducted by Jerry Semkow in works by Glinka, Dvorák and Prokofiev. With violin soloist Alyssa Park; Oct 23, 24

■ BONN

EXHIBITIONS
Kunst- und Ausstellungshalle der Bundesrepublik Deutschland
Tel: 49-228-917 1200
Kunsthalls Bremen: selection of important works including paintings, sculptures and copper engravings from ths collection of the Kunsthalle Bremen. Ranges from 17th century Dutch painting to modern photography; to Jan 11

■ BRUSSELS

OPERA
La Monnaie Tel: 32-2-229 1211
● La Stellidaura Vendicante: by Francesco Provenzale. New production directed by Philippe Sireuil and conducted by Alessandro de Marchi; Oct 21, 23
● Otello: by Verdi. New production conducted by Antonio Pappano in a staging by Willy Decker. Cast includes Susan Chilcott as Desdemona; Oct 21

■ CHICAGO

EXHIBITIONS
Art Institute Of Chicagn
Tel: 1-312-443 3600
● A Collecting Odyssey: Indian, Himalayan, and Southeast Asian Art from the James and Marilynn Alsdorf Collection. Around 200 works of art, primarily Buddhist and Hindu sculpture spanning nearly 20 centuries; to Oct 26
● Renoir's Portraits: Impressions of an Age. Around 65 paintings spanning the artist's career, nf subjects including Claude Monet and Madame Renoir. The show has been seen in Ottawa and will travel to Texas; opens today
● The Modern Midwestern Landscape: Gertruds Kuh and Franz Lipp. Examines the contrasting careers of these two Chicago-based landscape architects from the 1930s to the 1970s. Includes around 70 drawings and photographs; Kisho Kurakawa Gallery; to Nov 30

OPERA
Lyric Opera of Chicagn
Tel: 1-312-332 2244
● Idomeneo: by Mozart. Conducted by John Nelson in a staging by John Copley; Oct 22
● Nabucco: by Vsrdi. New production staged by Elijah Moshinsky and conducted by Bruno Bartoletti. Cast includes Maria Guleghina and Samuel Ramey; Oct 21, 24

■ LONDON

CONCERTS
Barbican Centre
Tel: 44-171-638 8891
London Symphony Orchestra: conducted by André Previn in a programme of works by William Walton. With violin soloist Alexander Barantschik, viola Paul Silverthorne and cellist Tim Hugh; Oct 23

EXHIBITIONS
Hayward Gallery
Tel: 44-171-261 0127
Objects of Desire: The Modern Still Life. Exploring 20th century developments nf a 400-year-old genre, this show ranges from Picasso and Matisse to Oldenburg and Warhol; previously seen in Naw York; to Jan 4

Tate Gallery
Tel: 44-171-887 8000
The Age of Rossetti, Burne-Jones and Watts: Symbolism in Britain 1860-1910. Works by British artists including the pre-Raphaelites Rossstti and Burne-Jones are presented alongside those of European contemporaries such as Redon and Moreau; to Jan 4

OPERA
Shaftesbury Theatre
Tel: 44-171-379 5399
The Royal Opera: The Merry Widow, by Franz Lehár, in a new translation by Jeremy Sams. Nsw production by Graham Vick, with designs by Richard Hudson; Oct 23, 24

■ MUNICH

DANCE
Bayerische Staatsoper
Tel: 49-89-2185 1920
Bayerische Staatsballett: Swan Lake. Sets and costumes are by Jnhn Macfarlane; Oct 23

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
● Die Zauberflöts: by Mozart. Conducted by Hans Drewanz in a staging by August Everding, with designs by Jürgen Rose; Oct 21
● The Love for Three Oranges: by Prokofiev. Conducted by Roberto Abbado, in a staging by Juri Ljubimow, with designs by David Borowskij; Oct 22, 24

■ NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
New York Philharmonic: conducted by Neeme Järvi in works by Thomson, Tchaikovsky and Mendelssohn. With tenor Richard Clement and violin soloist Tasmin Little; Avery Fisher Hall; Oct 21

EXHIBITIONS
Museum of Modern Art
Tel: 1-212-708 9480
Achille Castiglioni: Designl First US retrospective of the Italian architect and designer; to Jan 6

OPERA
Metropolitan Opera, Lincoln Center Tel: 1-212-362 6000
● Carmen: by Bizet. Revival of a production by Franco Zeffirelli; Oct 21
● Il Barbiere di Siviglia: by Rossini. Revival of a staging by John Cox; Oct 22

New York State Theater
Tel: 1-212-870 5570
Iphigénie en Tauride: by Gluck. New York City Opera. Conducted by Jane Glover and directed by Francesco Zambello, with sets by Marina Draghici; Oct 21, 24

■ PARIS

CONCERTS
Salle Pleyel Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Iván Fischer in works by Schubert, Mozart and Bartok. With piano soloist Richard Goode; Oct 22

DANCE
Opéra Natinnal de Paris, Palais Garnier Tel: 33-1-43439696
Paris Opera Ballet: in Swan Lake; Oct 21, 22, 23, 24

EXHIBITIONS
Grand Palais
Tel: 33-1-4413 1717
Georges de La Tour: bringing together all hut one of the 43 works now recognised as the work nf ths 17th century master, gradually recovered from obscurity since ths last century. The display also includes numerous copies; to Jan 26

Musée d'Art Moderne, Ville de Paris Tel: 33-1-5367 4000
Gilbert & George: major retrospective of the British artists, comprising some 120 works and spanning their career from their meeting at St. Martin'a School of Art in 1968 to the "Fundamental Pictures" of last year; to Jan 4

OPERA
Opéra National de Paris, Opéra Bastille Tel: 33-1-44731300
● Aufstieg und Fall der Stadt Mahagonny: by Kurt Weill. Conducted by Jeffrey Tate in a production directed by Graham Vick; Oct 23
● Turandot: by Puccini. New production by Francesca Zambello. Conducted by Georges Prêtre until Oct 13, when Fabio Luisi takes over. With choreography by Alphonse Poulin and designs by Alison Chitty; Oct 21, 24

■ TOKYO

EXHIBITIONS
Bunkamura Museum of Art
Tel: 81-3-3477 9252
Photography in Paris 1905-1997: around 240 works by soma 53 photographers, on loan from the Centre Georges Pompidou in Paris. Those represented include Man Ray and Andre Kertesz; to Oct 26

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Servics radin for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
Monday to Friday, Central European Time:

● **NBC/Super Channel**
07.00: *FT Business Morning*
10.00: *European Money Wheel*
Nonstop livs coverage until 15.00 of European business and the financial markets.
17.30: *Financial Times Business Tonight*

● **CNBC**
08.30: *Squawk Box*
10.00: *European Money Wheel*
18.00: *Financial Times Business Tonight*

COMMENT & ANALYSIS

Personal Views · Robert Hormats and Jeffrey Garten

Opportunity knocks

The visit of President Jiang Zemin to Washington presents Bill Clinton with an extraordinary opportunity to strengthen US ties with the world's fastest-growing economy and to restore momentum to Washington's flagging efforts to sustain international trade liberalisation.

Mr Clinton should use the occasion – the first state visit by a Chinese leader since that of Deng Xiaoping in 1979 – to forge a partnership for prosperity with Mr Jiang. By doing so, he could give a powerful impetus to further integration of China into the world market economy. That would advance not only China's reforms, but also the prospects for freer global commerce generally. US trade relations will be tested in the coming months. Differences with Beijing over World Trade Organisation membership remain unresolved. The US trade imbalance with China is growing and Congress is pressing for a harder line.

More broadly, the US deficit with Japan is widening and legislation to provide "fast track" trade negotiating authority is resisted in Congress by opponents of further liberalisation. In south-east Asia officials question why the US, having pressed the region to open capital markets, did not provide funds to Thailand when it got into trouble.

Yet the US has many good reasons to welcome Mr Jiang's visit. China has achieved remarkable economic growth, cut inflation dramatically, and raised 200m-300m people out of poverty. The 15th Party Congress gave Mr Jiang a mandate for significant reforms and elevated his team of modernisers. US-China trade and investment flows are growing rapidly and Beijing is committed to further market opening.

It would be a mistake, however, for the US to conclude that China is without serious economic problems. More than 100m people live in poverty. Tens of thousands of inefficient, highly subsidised state industries need market reform. Jobs must be found for many millions of workers who will be displaced. A troubled banking system needs to be overhauled.

The US should not believe that a deterioration in economic conditions in China would affect only the Chinese. China's failure to overcome these problems would slash US exports and investment there, costing thousands of US jobs. It could also lead to international economic and political instability. On the other hand, China's success would increase US trade, employment and investment, contributing to growth for years.

A looming question is whether the world's strongest economic power can forge a constructive relationship with the world's most rapidly emerging one. Or will the US and China view each other with mutual suspicion and become locked in a prolonged series of bilateral economic conflicts?

The overriding goal should be the integration of China into the network of market-based rules and institutions that make up the international trade and financial system. China should receive benefits and assume responsibilities commensurate with its economic importance, level of development and trading strength. That would enhance Beijing's domestic reforms and support a more open global economy. Such a partnership would provide a framework for sustained engagement of US and Chinese economic officials bilaterally and in regional and international forums. It would also improve US-China co-operation on social, political and security issues.

The partnership for prosperity would have several components. Initially, Mr Clinton should present a coherent China policy to the American public, and stress the importance of relations with Beijing. Bipartisan agreement must also be reached to rid the agenda of the annual US threats to withhold "most favoured nation" status. High-level visits must not be held hostage to the latest US grievance with Beijing.

Highly charged economic, political and security issues are interwoven in US-China relations. Nothing less than annual presidential summits are required during this period of transition. The summits would aim to reach agreement on principles to guide the relationship. Committees of cabinet and *sub-cabinet financial and trade* officials would implement policies. That structure would engage future generations of leaders in building the relationship.

An initial challenge is to prevent debate about China's membership of the WTO from becoming a prolonged test of wills between Washington and Beijing. As an important trading power, China wants others to follow WTO rules, so it has a growing interest in doing likewise.

Moreover, these rules give China's reformers additional clout to reduce subsidies, liberalise state controls, ensure greater scope for the rule of law and move towards greater market openness. Membership of the World Bank, International Monetary Fund and Asia Pacific Economic Co-operation (Apec) have bolstered China's reforms. So can WTO membership.

But China fears unrest if it displaces millions of workers by quickly shutting too many large factories or removing their subsidies. The US should not push China to move so rapidly as to produce instability.

Common ground exists. China could implement WTO rules in such areas as market access, as well as investment and intellectual property protection on a schedule similar to most other nations. It could slowly phase in certain internal adjustments, such as subsidies to certain industries, reducing the adverse impact on jobs.

Participation in annual Group of Seven summits on terms similar to Russia would enable China's leaders to draw support for reforms from the leading market economies and encourage Beijing to assume increasing responsibility for the global economy. China's impact on world trade and finance exceeds Russia's and is growing *rapidly; exclusion is difficult to* justify and US support for inclusion increasingly appropriate.

These steps do not guarantee the US and China untroubled economic relations. Problems will emerge, some serious. Nonetheless, a well-structured US-China partnership would promote sustained high-level contacts. It would support China's reforms and overcome recent setbacks to trade liberalisation in Asia. Agreement on a partnership for prosperity would turn the Washington summit into an enduring success for both presidents.

RH

The author is vice-chairman, Goldman Sachs (international), former deputy US trade representative and assistant secretary of state for economic and business affairs

Rogue elephant rampant?

When Bill Clinton meets his Chinese counterpart in Washington next week, high on the administration's agenda will be the importance of helping China become more integrated into the mainstream of the world economy.

The underlying assumption is that, as China further opens its trade and financial systems, and as it eventually accepts the rules of the International Monetary Fund and the World Trade Organisation, the west will no longer have to fight with Beijing about everything from textiles to intellectual property rights. Instead, the task will be to nudge China along to ensure it becomes a fully fledged member of the international community.

It is an appealing thought, but it is deeply flawed. China is likely to change the global capitalist system as much as it will be disciplined by it. And the west is not remotely ready for the *tumultuous dislocations* ahead.

China is not Argentina or Poland. Its birth as an economic force will not be plain sailing for the rest of the world. Its geographical size (roughly the same as the US), its population of 1.2bn, its dizzying economic progress, its extensive system of advanced education, its technological and military potential and its geopolitical goals mean China's emergence as a full participant in the global marketplace will be as disruptive as the rise to power of the US at the turn of the century, or Germany and Japan in subsequent decades.

"China enters the world economy from a position of enormous strength," says Kenneth Courtis, a Tokyo-based global economic strategist at Deutsche Bank. "Its growth rates have been in double digits. Its trade is soaring. Counting Hong Kong, its reserves equal nearly a quarter of a trillion dollars. The issue isn't just how to integrate China – it's how to make room at the top."

Since at least 1622, when a European named Adam Schall landed in the Middle Kingdom to convert Chinese people to Roman Catholicism, westerners have attempted to remake China in their own image. As Jonathan Spence, the Yale historian, writes in his classic book, *To Change China*, they have consistently failed. It wasn't that China didn't change, but that it always fought to retain the right, precious to all great nations, of "defining her own values, dreaming her own dreams without alien interference".

Consider the potential economic tensions that the rest of the world will face as China emerges in accordance with its own rhythms and aspirations.

First, China will become a phenomenal export machine. The pace of its exports has been growing at three times the world average. China is set to displace mnch of the sales of low-cost manufactured goods from Thailand, Malaysia, Indonesia and the Philippines, worsening their economic problems. Moreover, it is fast moving upmarket, selling more sophisticated manufactured products, such as computer parts. Already China is closing in on Japan as the country most responsible for the growing trade deficit of the US. Within 25 years, the World Bank expects China to be the second-largest exporter in the world next to the US, and dwarfing Japan.

Second, China will become a bottomless pit for foreign capital, creating problems for countries that desperately need foreign investment. In the 1990s alone, there has been a five-fold increase in capital flows to China. Last year, flows reached $42bn (£26bn). After the US, China receives more foreign investment than any other country and accounts for 40 per cent of all direct investment in the developing world. That is on top of the fact that China is the largest borrower from the World Bank, the Asian Development Bank, and the world's largest recipient of foreign aid.

All this incoming money is potentially only the beginning. So far, nearly all this capital inflow has gone only to the coastal provinces, and most has come from Hong Kong companies. As China's investment policies become more open, as other parts of the country begin to stir, as a $600bn programme of physical infrastructure takes shape, a flood of new foreign money can be expected.

Third, China will continue to play by different rules, as Japan has done for so long. Pushing exports and holding down imports is characteristic. In the first seven months of this year, exports are up 26 cent, while imports have increased only 1.9 per cent. China continues artificially to manipulate its currency, keeping it weak in order to stimulate exports. It continues to use the lure of its market to play off companies such as Boeing against rivals such as Airbus, and to award contracts only if proprietary technology is surrendered.

Following in the footsteps of Japan and South Korea, Beijing is organising much of its industrial structure – such as electronics, petrochemicals and autos – into gigantic state-directed conglomerates. To the extent that these maverick policies succeed, they will provide an alternative to the American model of capitalism, the search for which is becoming intense in big emerging markets from Brazil to Indonesia.

Fourth, China will tear at the fabric of the new WTO once it is admitted. Beijing will require at least a decade's grace to evolve into a real market economy. During this transition, the west will confront unrelenting problems when pressing Beijing to uphold commitments on issues ranging from privatisation of state companies to currency convertibility, let alone tariffs, subsidies and quotas. That could consume the WTO'e energies, at the expense of essential new global trade agreements covering high-technology trade, foreign investment and anti-competitive practices.

None of this means that China shouldn't be encouraged to join the western club. After all, the alternatives are worse. But as Nicholas Lardy, China expert and senior fellow at the Brookings Institute in Washington, asks: will China conform to western values or will it force the west to change? In the face of powerful capitalist currents in the global economy, the answer is that both will happen. Engaging with Beijing will surely be a much longer and more painful process than western leaders now contemplate.

At the forthcoming bilateral summit, there will no doubt be the usual round of statesman-like rhetoric. But the west should remember that, hitherto, China has been an elephant dipping its trunk into the water. Now it is about to jump into the pool.

JG

The author is dean of the Yale School of Management and author of The Big Ten: The Big Emerging Markets and How They Will Change Our Lives (Basic Books 1997)

China: friend or foe?

Next week China's President Jiang Zemin visits Washington. These two articles explore issues for the US-China summit. Robert Hormats urges the US to take a leading role in bringing China into the world economy, and argues that US policy could help reform in China itself. Jeffrey Garten questions whether China's international economic ambition would benefit others and concludes that while it would be better to have China as a friend than an enemy, the process of integration will be painful.

Jiang Zemin

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'), e-mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages.

System of reviewing wage rates without imposing 'pay norms'

From Mr Peter Ingram.

Sir, Your editorial "Pay minimum" (October 15) rightly identifies uprating as the important issue in the minimum wage debate. Any minimum wage rate, once introdoced, will become the subject of periodic upgrading to relate the wage to changing economic circumstances. Upgrading, and the interval between wage upgrades, may provide a *de facto* stance on income growth. Regardless of the level at which the minimum acceptable wage is introduced, the rate of wage change from thet level, and its national coverage, could have wide ranging consequences in the labour market.

More than 90 per cent of employees receive an annual change in wages. One possibility would be to leave these periodic changes in wages to the current arrangements, with employers awarding annual wage changes in response to workplace constraints while the basic national minimum wage rate was subject to a three to five-year review.

Research shows that employees in the private sector – where the majority of people who are likely to be covered by a minimum wage work – experience differences in the size of their relative wage increases from year to year. In any year, some groups do badly while others do well. Over several years, the cumulative change in wages tends to balance out.

Allowing this flexibility woold leave wage decision-making to the individual employer from year to year, subject to the national wage rate being met.

Employers could not afford to ignore the need to increase wages roughly in line with wages elsewhere in the economy as the fundamental review of the minimum wage would require them to meet successive benchmarks. The system would protect the oscillation in wage outcomes from year to year, yet provide a mechanism to review wage rates without an annual imposition of an effective "pay norm".

Peter Ingram,
Lecturer in economics,
University of Surrey,
Guildford,
Surrey GU2 5XH, UK

Government's fossil fuel subsidies must give way to renewable energy funding

From Mr David Cromwell.

Sir, As a former Shell exploration geophysicist and a Green activist, I find it heartening to see Shell finally make a significant move into the market for renewable energy sources.

However, taxpayers are still funding fossil fuel expansion. Many European countries – including the UK – reward companies actively exploring and developing oil and gas reserves with favourable tax treatment or low royalties. It is crucial that governments now reduce subsidies made to the fossil fuel industry and do more to increase renewable energy technologies.

Greenpeace reports that nearly $15bn of taxpayers' money has been used every year since 1990 to prop up the fossil fuel and nuclear industries in subsidies from the European Union and western European governments. In stark contrast, the real environmental solutions – such as solar electricity and wind power – received only $1.5bn: one tenth of the funding.

The money handed out to the fossil fuel and nuclear industries is suppressing and slowing the rise of solar renewable energy technologies. It reinforces the dominance and influence of the traditional industries, and takes much-needed money away from the alternatives. It also undermines the EU's notion of truly "competitive" energy markets.

Accelerating the use of existing solar renewables will bring about the sort of mass marketing and price reductions for these technologies we saw with mobile phones and compact discs. Such a decision would enable us to take tougher, earlier action to cut CO_2 emissions and phase out dangerous fossil fuel *and* nuclear energy.

If the UK government wants to avoid accusations of colluding with the oil, coal and dominant electricity industries, it must stop subsidising fossil fuels in favour of renewables now.

David Cromwell,
Southampton Green Party,
32 Avenue Road,
Southampton,
SO14 6TT, UK

Signs of Britain springing back to its roots

From Mr Eric Jones.

Sir, Mr Steve McGiffen (Letters, October 14) believes that announcing "later this fall" the possibility of the UK entering Emu signifies English-English entering "the autumn of its days".

Not so. "Fall" is an acceptable old regional term for autumn, for example in Dorset. Rather, one might say the country is springing back to its roots.

Eric Jones,
Wissenschaftskolleg,
Wallotstrasse 19,
D-14193,
Berlin,
Germany

Undermining pensions

From Ms Ann Robinson,

Sir, The reported view of the UK's department of social security "Shadow over pensions tax relief", 10 October), that tax relief fur pensions disproportionately benefits the better-off, appears to be based on misconceptions as to the nature and effect of tax relief for contributions, and hence is supported by figures of dubious quality.

Most of the £68bn quoted has nothing to do with private pensions. The £13bn net figure for tax relief for private pensions does not have regard to the *future* revenue from the taxation of retirement income. Contributions are pay which has been deferred and will be taxed on receipt. In future years revenue will rise as more taxpayers enjoy growing retirement incomes. If the government moves away from the principle that pay not received is not taxed, an entirely new concept of income taxation will have been introduced.

The growing number of pensioners who are better off today is largely due to the success of occupational pensions. Surely the government's objective must be to encourage the 50 per cent of people who are making insufficient pension provision, not to deter those who are already doing so. If pension savings are discouraged there will be more poorer pensioners in future years and therefore higher public spending and taxation.

It would be better if policy development could go back to first principles to design a fairer, simpler tax structure for pensions. The present system is both complex and unfair to the lower paid; imposing double taxation is not the way to fix it.

If the UK government wishes, as it says, to encourage pension provision, it cannot allow the Treasury to go on undermining pensions.

Ann Robinson,
director-general,
The National Association of Pension Funds,
12-18 Grosvenor Gardens,
London SW1W 0DH, UK

هكذا من الأصل

COMMENT & ANALYSIS

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Tuesday October 21 1997

Solidarity revisited

The coalition agreement signed yesterday between the victors of last month's Polish elections recreates, in an updated form, the old Solidarity alliance. The question now is whether it will prove more coherent and durable than the original version. In the early 1990s, internal splits opened the way for the post-communist restoration under which Poland was ruled for the last four years.

The omens are reasonably good. The policy agreement between Solidarity Electoral Action (AWS) and the Freedom Union (UW) will produce a government led by Mr Jerzy Buzek of the AWS. Mr Leszek Balcerowicz, the UW leader and pilot of Poland's ground-breaking 1990 economic stabilisation plan, comes back as finance minister and deputy prime minister.

The two men like and respect each other, which is a good start. The division of spoils also gives the pro-business and pro-European UW several important ministries, including foreign affairs, defence and transport. These are important now that Poland's membership of both Nato and EU is on the agenda and big investment is needed to build a motorway network and modernise the railways.

But much depends on whether Mr Balcerowicz will be able to assert overall control of economic and financial policy. After all, key economic ministries such as the newly upgraded treasury and the labour ministry will be held by AWS ministers. Their electoral base lies in the strongly unionised, over-manned and still state-owned basic industries. The unions are very weak in the fast-growing private sector which represents Poland's future and where Mr Balcerowicz has his support base.

During the election campaign Mr Balcerowicz criticised the former communists for slowing down the pace of privatisation and pension and other reforms. He promised to speed up both in order to attract more foreign investment and to raise the flow of domestic savings to an increasingly privatised economy.

That is what is needed if the Polish economy is to grow by the 7 per cent or more annually of which it is capable. Growth on this scale will be needed to narrow the gap between Polish and EU living standards in time for first-round entry into an enlarged Europe.

Foreign investors will be watching closely to see whether the Balcerowicz view prevails. Their focus will be on the treasury's privatisation performance and on how the labour ministry deals with the pension and social security reforms. In both areas progress will be crucial to the success of the new government.

Keeping the AWS focused on these issues is Mr Balcerowicz's main task.

Whale meet

There are two reasons for saving the whales: one good and one bad. They have become so entangled that the effectiveness – and even the existence – of the International Whaling Commission must now be in the balance.

The 43-nation IWC, which is meeting in Monaco this week, was founded half a century ago for the better of these reasons. That was to prevent stocks from being over-exploited. It failed miserably. By the end of the 1960s, many of the larger species had been driven almost to extinction. But it was not until 1986 that an international moratorium on whaling was agreed.

By then a new argument was being advanced. It was said that killing whales should be stopped, not just to conserve species, but because they are noble animals. This was given emotional support from images of giant whales pouring blood into the ocean or being ripped apart on factory ships.

The widespread revulsion against such killing is understandable, but it has not proved a good basis for international agreement. Norway (which refused to accept the moratorium) and Japan (which permits whaling for "scientific" purposes) may fairly argue that there is no good reason for distinguishing whales from other wild animals killed for their meat – such as boar in France.

In practice such arguments revolve around only one species of small whale, the minke. All others are still endangered and their catch, by common consent, need protection.

Japan now catches about 440 minkes a year. Norway takes another 540. These figures are tiny compared to the 112,000 minkes estimated to inhabit the north Atlantic and the 700,000 in the southern ocean. With stocks of such a size, a complete ban cannot be justified on conservation grounds.

An Irish proposal for a limited lifting of the ban therefore makes good pragmatic sense. If the IWC can agree it, minke whales would only be hunted within the countries' coastal waters, and trade would be banned. Even if this were to result in somewhat higher catches than at present, stocks would not be threatened. And there would be great gains from bringing Japan and Norway back into the agreement.

Both nations would then be more likely to police their own whaling industries effectively, for example by taking DNA samples from each animal and so ensuring that meat sold in supermarkets was legitimately caught.

If the IWC cannot move towards a deal of this kind or retreats into emotion, it is likely to be ignored. And then it will lose its function.

Copywrong

The Publishers Association, the trade union of British book publishing, has seen the future and does not like the look of it. The association is upset because US-based internet booksellers are supplying UK customers with books licensed for sale in the US. Such ungentlemanly conduct, the association says, is unfair, illegal and must stop.

Never mind that UK consumers increasingly benefit from this form of electronic mail-order. Because US publishing is highly competitive, books there are more cheaply than in Britain.

The Publishers Association says these "parallel imports" breach UK copyright law and threaten the public good. It says that if the law no longer served to restrict imports, competition would erode the margins on best-sellers, which publishers need to support riskier authors and titles. Entrepreneurship, consumer choice – indeed, the nation's cultural identity – would all thereby suffer.

The association's arguments resemble those it used unsuccessfully to oppose abolition of the Net Book Agreement, a price-fixing scheme, two years ago. Its current arguments are just as full of holes. Premium pricing of best-sellers, sustained by import restrictions, is a concealed tax. It is questionable in principle, and its alleged utility is unproven.

New technologies are revolutionising the economics of publishing. A freer and more competitive market would encourage innovation by small specialist publishers, efficient enough to prosper without the cross-subsidies which established companies need to cover their costs. Perhaps that is what the Publishers Association's members really fear.

But, says the association, it has the law on its side. Perhaps. The UK law has never been tested in this context – nor was it designed for it. Copyright law was intended to protect authors' rights, not to segment markets and allow differential pricing. Like most of the world's other intellectual property rules, the UK law dates from an era when national markets were protected by high import barriers and slow and expensive communications. Such rules are ill-suited to an age when instantaneous communications and intensifying international competition are fast rendering economic frontiers irrelevant.

Intellectual property legislation needs to be updated if it is not to lead to increasing distortions and anomalies in global markets. By drawing attention to that need, the Publishers Association has performed a public service – even though it seems less interested in promoting global competition than in hiding from it.

The cost of dithering

The UK government's on-again, off-again policy towards Emu could diminish Britain's voice in Europe, says **Lionel Barber**

From the vantage point of Europe, the Labour government's topsy-turvy policy toward Britain joining economic and monetary union carries an air of *déjà vu*.

For five years, European leaders watched with frustration the previous Conservative government's manoeuverings over Emu. Tony Blair, the new prime minister, was supposed to be different: a fresh face with an open mind, a huge parliamentary majority and a mission to assume a leading role in Europe.

Until Labour offers an official statement to parliament on Britain and Emu, the inclination in Brussels is to give Mr Blair the benefit of the doubt. But if the UK prime minister fails to offer a declaration of intent to join Emu by mid-2002, when euro notes and coins come into circulation, Europe will wonder whether Britain is considering staying out indefinitely. Delayed entry will come at a price.

Emu presents Labour with choices no less fateful than those more than 40 years ago when Britain declined to join the six founding members of the European Economic Community. For Chancellor Helmut Kohl of Germany, President Jacques Chirac of France and other European leaders, the single currency is not only indivisible from the single market: it is also the catalyst for the deeper integration necessary for the planned enlargement of the EU to the former communist countries of central and eastern Europe. Emu, like the 1957 treaty of Rome, is not just about economics. At bottom it is a political enterprise.

Since John Major, the former prime minister, negotiated the right to opt out of Emu in 1991, Britain has enjoyed the best of both worlds. Ministers have had a voice in negotiations on the terms of the single currency while sitting on the fence. But once EU leaders decide in May 1998 which countries qualify for Emu, Britain will no longer have an equal say at the table.

The costs of that are several. The UK will have no vote on the appointment of the new president, vice-president and other members of the executive board of the European Central Bank. Nor will it have a say on the monetary policy pursued by the ECB in the euro zone. The ECB will act as spokesman for this group in international forums such as the G7, where Britain's voice will be diminished.

Inside the Ecofin council of European Union finance ministers – perhaps the most powerful political forum outside the six-monthly EU summits – the UK position will also be eroded. The thrust of UK economic policy toward labour market flexibility, which many believe is essential if Emu is to work effectively, will have less impact. But Britain will be expected to manage exchange rate policy as a "common concern" even if it remains outside Emu.

The UK will not have a seat in a new "euro council" forum where Emu-bloc countries will gather ahead of the monthly Ecofin meetings. At German insistence, the forum will be informal in order to insulate the ECB from political interference; but few doubt the new grouping presages a decisive power shift toward the Emu elite dedicated to closer co-ordination of economic policy.

On present projections, the select Emu group will comprise at least two-thirds of the 15 EU countries, including previous long-shot Italy. Britain, along with Denmark, Sweden, and Greece, will be out in the cold. Some UK ministers are worried that the balance of power in the Union will tilt toward a French-led *dirigiste* approach.

The imminent launch of the single currency, remarks an EU commissioner in Brussels, is already exerting a pervasive influence on policies such as taxation, competition policy, state aid and EU budget policy. The risk for Britain is that political trade-offs could be made among Emu-bloc countries and presented to the rest of the EU as a *fait accompli*. No doubt, the UK would insist that all deals should be compatible with EU treaties and would reserve the right to appeal to the Commission. But as one UK official admits: "Outside Emu, I am not sure we would get a fair hearing."

An official close to negotiations between London and Brussels believes UK influence would begin to wane on a range of EU issues, not least the shaping of the Union's budgetary priorities and the thrust of reforms to the Common Agricultural policy.

Ultimately, the cost of staying out indefinitely may be measured in terms of missed opportunities. Semi-detached Denmark and Sweden meet the economic criteria for entry but are hesitant on political grounds. The pro-European forces in these countries had been looking to Mr Blair to give a lead. They may now be in for a disappointment.

The biggest missed opportunity could be failure to break into the Franco-German magic circle. For two decades or more, French strategy has been to avoid being subsumed in a D-Mark bloc. The answer was Emu, but as one senior French official says: "British involvement would give the project a critical mass which it otherwise lacks."

From Germany's standpoint, UK participation in Emu would stymie any French temptation to turn the single currency into a political project to counter US power, with a weaker euro used as a competitive tool against the dollar.

The pro-Emu camp argues that Britain can only fulfil its ambition for shaping the future of the EU if it joins the single currency. Peter Mandelson, the minister closest to Mr Blair, indirectly summed up the stakes in a speech last year when he attacked those in the Conservative party flirting with withdrawal from the Union. "The real danger is that we are going to stay in while often sounding as if we wish we were out. This threatens to leave Britain with the worst of both worlds."

Note of confusion on single currency

Even the most Eurosceptic member of Tony Blair's cabinet believes it would be madness not to prepare for sterling's possible entry into a European single currency in 2002.

Although they disagree on how firm a commitment the government should make to joining by that date, all are agreed that the option should remain firmly open.

There is therefore bemusement at the highest level of government that briefings over the weekend by officials working for Gordon Brown – the chancellor and long seen as a proponent of Emu – have gone some way to closing off that option.

An impression has been created that the government will soon make a statement ruling out membership before the next general election, due by mid-2002 at the latest. The effect of that impression – if it is not reversed – will be to deter businesses from preparing for Emu and to stifle any attempts to launch a national debate on its merits. So even if the UK retained a theoretical option of joining the single currency in 2002, it might – in practice – not be ready for it by then, or even much later.

In other words, there has seemingly been a big change in government policy on one of the most important economic questions faced by any British government in the past 50 years. But, amazingly, no declaration to this effect has been made by the chancellor or the prime minister.

Mr Brown has made two statements on the issue over the past few days. He gave a series of relatively unsurprising quotes to The Times newspaper on Saturday that it was unlikely sterling would join Emu at the 1999 launch. Yesterday morning he made a short speech covering much of the same ground to the Stock Exchange at the debut of its new trading system.

But his media and economic advisers, in briefings to journalists, made clear that his anodyne words carried a weighty implication. Mr Brown referred to the need for "a period of stability without continuing speculation", during which the UK would attempt to meet a series of economic conditions he deems necessary for Emu membership. This "period of stability", they said, had been fixed as the lifetime of the present parliament. Officials also confirmed that Mr Brown would make a detailed statement to parliament on Emu within the next few weeks.

Big UK companies have taken note. Ministers said yesterday they had been in touch with several, trying to reassure them – more or less successfully – that the government had not suddenly become hostile to Emu.

Perhaps the most damaging aspect of the whole affair is the disclosure that Mr Brown authorised the briefing of The Times largely because of his concern about reports that he was at odds with the prime minister over Emu policy. Mr Brown is said by a senior minister to have informed Mr Blair that it was crucial such speculation end.

The prime minister is also said to have been surprised at the contents of The Times's story. Mr Blair, who has long harboured doubts over Emu deeper than those of Mr Brown, does not apparently wish to close the door completely on single currency membership during the life of this parliament.

But with speculation rife of a split between Mr Blair and Mr Brown, the prime minister's own spokesman had no option but to back Mr Brown's Emu line.

As a senior minister said, there is nothing more damaging than the appearance of division between a prime minister and his chancellor. Almost any price was worth paying to prevent that.

Robert Peston

· OBSERVER ·

Armstrong, at last

■ Wall Street's been saying for over a year that Mike Armstrong is the right man to run AT&T. Sadly, it's taken the US telecommunications giant that long to reach the same conclusion.

The man who turned around Hughes Electronics for General Motors was last autumn tipped to take Ma Bell's helm from Bob Allen. The two men apparently got down to talking turkey but – for reasons that'll probably never become clear – couldn't cut a deal. Now, after a year of vacillation that's done nothing for AT&T's blue-chip reputation, they've finally reached an accommodation. Armstrong, 59, takes the roles of both chairman and chief executive. Allen, 63, steps down pretty much immediately.

Armstrong, a 30-year servant of IBM until he responded to GM's call, has all the right credentials to make up for lost time. In five short years at Hughes, he sold the defence side to Raytheon, cut costs, closed plants and positioned the company at the cutting-edge in everything from missile systems to satellite television. The stock price was $17 when he arrived from Big Blue, against $66 at the end of last week.

By all accounts the unassuming Armstrong isn't a telecoms messiah in the mould of, say, WorldCom's charismatic Bernie Ebbers. But after a year in the strategic wilderness, AT&T's long-suffering shareholders will be hoping for miracles.

Farewell Thanong

■ Outgoing Thai finance minister Thanong Bidaya wasn't first choice for the job when it became vacant in June for the fifth time in two years. As president of the troubled Thai Military Bank, Thanong was hardly a figure on the world financial stage. Neither was he an enthusiastic candidate; the low-profile 50-year-old left the country when he heard his name was in the frame. He was finally tracked down in the lobby of a Hong Kong hotel.

But once in the hot seat, Thanong at least tackled the job head-on. He floated the baht just before Thailand ran out of foreign currency and immediately flew to Japan – where his did his undergraduate training – to inform his country's most important economic ally. "The more I told them about the situation, the more polite they got until at last I saw the finance minister," explained Thanong. "He told me to go to the IMF."

So far, so good. But now there's pressure for Thailand to shake out its bankrupt financial institutions – and Thanong is candid enough to admit that he doesn't feel up to the task. His resignation leaves prime minister Chavalit Yongchaiyudh again looking for a financial heavyweight to fill the post. Expect flights out of Bangkok to be chock-full of anxious-looking bankers.

Sharp Sharman

■ So the great accountancy Scrabble game continues. This time it's KPMG and Ernst & Young that want to create the profession's biggest jumble of initials. It's by no means a foregone conclusion that they will succeed; a couple of weeks ago both sides were sounding off about the competition issues raised by the rival merger of Coopers & Lybrand with Price Waterhouse.

But if KPMG and E&Y do get together, it will be one coterie of accountants that's not run by a bloodless bean-counter. KPMG big-wig Colin Sharman – who cites Niccolò Machiavelli as his management hero – is pencilled-in to chair the combined firm. If you thought accountants were shy and retiring types, think again.

Unusually forceful for a Brit, 54-year-old Sharman joined the profession straight from school and worked his way up through the ranks. In 30 years with the old Peat Marwick he worked all over Europe and, in the early 1990s, helped turned around the firm's consulting practice. When KPMG's international chair fell vacant four years ago, Sharman was the overwhelming choice.

Since then he's been in the news more than any other British accountant. Whether it's his £700,000-a-year pay package or his decision to lift the veil on KPMG's own financial performance, the opera-loving Sharman's rarely been out of the spotlight. From the top of the world's largest accounting practice he'll have even more opportunities to make himself heard.

Last puff

■ Along with secondary smoking, it's been fascinating the medics for years. How come acute heart attack patients who smoke carry a lower risk of dying when admitted to hospital than those who never touch the things?

The wonderfully named Robert Beaglehole, who hails from the University of Auckland, has after lengthy research, solved the paradox. It's because smokers who suffer a heart attack invariably die before they get to hospital. Simple.

The Financial Times

100 years ago

Death Of Mr Pullman

Chicago: A painful sensation was caused here to-day when it became known that Mr George M. Pullman, founder and president of Pullman's Palace Car Company, had dropped down dead from heart disease. Mr Pullman had previously been in good health and nothing had foreshadowed his sudden demise. He was born in New York State in March 1831 and was, consequently, in his 67th year. It is estimated that his fortune amounts to $50,000,000.

50 years ago

De Gaulle's Party Leads

Paris: The amazing success achieved by General de Gaulle's party, Rally of the French People, which to-day increased its poll to 40.5 per cent of the 4,500,000 votes so far counted in yesterday's municipal elections, has aroused the greatest surprise here, even among the General's supporters themselves. Whereas, on the whole, the results in Paris were expected, not only the control of the Paris Town Council, but also that of Bordeaux, Strasbourg, Lille, Algiers and other towns goes to General de Gaulle as a consequence of this landslide unprecedented in French history.

FINANCIAL TIMES
Tuesday October 21 1997

New powerplants reduce emissions and achieve 70mpg

Honda drives towards more efficient engines

By Haig Simonian in Tokyo

Honda has upped the stakes in the race to develop cleaner and more frugal vehicles with two engines offering unprecedented emission reductions and fuel consumption of around 70 miles per gallon.

The "integrated management assist" system combines a 1-litre, three cylinder, direct injection gasoline engine with a revolutionary electric motor and continuously variable transmission, or CVT.

The system, which could be installed in one of Honda's new J-series models to be shown at this week's Tokyo motor show, could be on sale in Japan before the end of next year. Installation in a model for the European market would come in 1999.

Leading carmakers are stressing environmental issues, partly in response to the tough emission limits being planned in many countries. Most companies are putting their long-term bets on hydrogen-powered fuel cell vehicles. In April, Daimler-Benz of Germany bought a 25 per cent stake in Ballard Power Systems of Canada, the market leader in fuel cell technology. But commercial versions of fuel cells are several years away.

Toyota, Japan's largest car company – Honda is third – will soon begin production of a hybrid vehicle using an internal combustion engine and an electric motor, but the Honda design looks more economical.

The Honda system works by combining a small, frugal internal combustion engine with a compact electric power plant in one unit. Including the CVT gearbox, the whole powerplant weighs 190kgs, about 50kgs more than a conventional motor.

The 10KW electric motor uses power regenerated from braking. The current is stored in a separate "ultra-capacitor" and only used when the driver requires additional power. Honda has also developed a prototype "zero level emissions vehicle", or ZLEV.

Honda president Nobuhiko Kawamoto said the engine's emissions were one-tenth the world's most stringent ultra low emission levels being proposed by California. "Emissions from the tailpipe will be cleaner than the air going in the front end," he said. "The engine also represents a feasible approach, one we believe can be applied to Honda engines in future."

The 2.3 litre ZLEV engine works by refining an existing low emissions engine which is combined with three different catalysers. The combination cuts emissions far more effectively than existing catalyser technology. Details of the new powerplant remain sketchy, and Honda said it would be some time before mass production could begin.

Unilever to pay $930m for Brazil ice cream producer

By John Willman, Consumer Industries Editor

Unilever is to strengthen its grip on the global ice cream market by paying $930m to acquire Kibon, Brazil's largest ice cream business, from Philip Morris.

The purchase is the largest since the Anglo-Dutch consumer group sold its specialty chemicals business to Imperial Chemical Industries in May for £4.9bn ($7.93bn).

It meets two of Unilever's investment priorities – ice cream is one of the seven "starred" product categories selected for development, and southern Latin America is one of the five sub-regions identified for expansion.

"This is further evidence of our determination to develop and grow our priority product categories in the developing and emerging markets," said Niall Fitzgerald, co-chairman of Unilever.

The acquisition – subject to approval by the Central Bank of Brazil – will give Unilever more than 60 per cent of the fast-growing Brazilian market. The next largest producer is Nestlé, the Swiss food group, which has 20 per cent.

Sales of ice cream in Brazil average 1.2 litres per head a year and Unilever expects to increase this to the levels seen in other South American countries such as Argentina, where consumption is 3.3 litres, or Chile, where it is 4.2. As in those countries, it will introduce international ice cream brands to Brazil such as Magnum, Viennetta and Solero.

Last month Unilever bought *Montbelado*, Argentina's second-largest ice cream maker, also from Philip Morris. When the Brazilian deal is completed, Unilever will be the largest ice cream maker in the $1.6bn Latin American market.

Unilever sells ice cream in 85 countries with sales worth about $6bn a year – more than twice those of Nestlé, its nearest competitor.

Kibon had net sales of $332m and operating profits of $75m for the year to the end of October 1996. The deal also includes Philip Morris's share of Sorvane, a joint venture based in north-east Brazil.

The announcement was welcomed by the markets, with Unilever shares up 7p at 485p.

"This is an excellent fit with the group's strategy which kills two birds with one stone," said Tim Potter at Merrill Lynch. "It is rare to find such an attractive deal in emerging markets."

The deal marks a final exit from the ice cream business for Philip Morris, which acquired Kibon when it bought General Foods in 1985.

Traders plug wares, Page 8

HK film distributors snub Hollywood's Tibet movies

By John Ridding in Hong Kong

Beijing accuses the Dalai Lama (above) of seeking to divide China and has reacted angrily to the new films

Hong Kong distributors have declined to buy the rights to two Hollywood films about Tibet and its exiled spiritual leader, the Dalai Lama, raising concerns about self-censorship in the territory following July's return to Chinese sovereignty.

The two films, *Seven Years in Tibet* and *Kundun*, are now not expected to be screeoed in Hong Kong. A third film, *Red Corner*, which portrays a US businessman ensnared in China's legal system, is also facing difficulties finding a distributor.

While Hong Kong's return to China has gone smoothly and Beijing has adopted a hands-off approach to the territory, pro-democracy politicians and human rights activists warn of a rise in self-censorship.

"Hong Kong must remain open to all kinds of ideas," said Law Yuk-kai, director of Human Rights Monitor. "The media and entertainment industry must stand firm."

Beijing accuses the Dalai Lama of seeking to divide China and has reacted angrily to the films. It warned that Disney, which made *Kundun*, could face commercial retaliation if it pressed ahead with the film's release.

Some of Hong Kong's big distributors rejected claims that political considerations had entered their decisions since the handover. "There has been no change, we just function as usual," said Tony Fung, managing director of Golden Harvest. The company has a distribution contract with UIP, one of the largest film companies and distributor of *Red Corner*. Mr Fung said it was not planning to screen the film in Hong Kong.

Others, however, cited political concerns over the Tibet films. "It is a very sensitive subject," said Tony Wong, head of Cinemation Films. "We did not want to get into trouble."

Government officials emphasised that political considerations were not involved in film censorship in the territory. Rita Lau, deputy secretary of the government recreation and culture branch, said a 1994 amendment to law had removed considerations of whether a film could "damage good relations with other territories" in censorship decisions and this amendment remained in place.

Tung Chee-hwa, Hong Kong's chief executive, has said advocating independence for Taiwan or Tibet should not be allowed in the territory. Legislation setting limits for freedom of expression on these issues is being delayed until a new legislature takes office after elections in May next year.

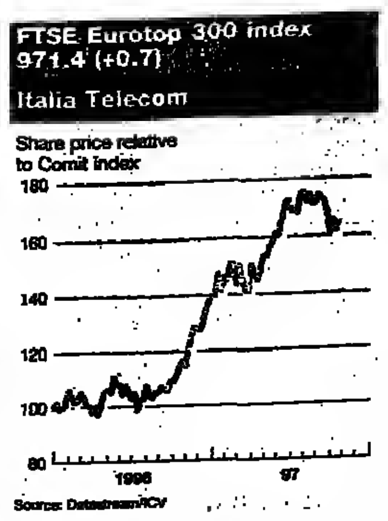
THE LEX COLUMN

Wishing on a Star

In their desperation to evade Hilton's hostile embrace, ITT's directors seem to have scoured even the heavens. And having secured a $9.8bn friendly offer from Starwood Lodging at a near 20 per cent premium to Hilton's $8.3bn bid, they may well make good their escape.

As white knights go, Starwood is unusual in having two heads: it is in effect a normal hotel company wrapped up in a real estate investment trust (REIT), which owns the hotel properties and the stock market quote. This highly tax-efficient structure – since outlawed by the authorities – is one reason why Starwood can outbid Hilton. Second, in another example of Wall Street's currently crazy conditions, it is largely using its own highly rated paper to buy a company twice its size. Starwood has been a meteoric performer and is trading on almost 15 times next year's earnings before interest, tax, depreciation and amortisation. And, on top of that, the deal has a fair degree of industrial logic. While Starwood is predicting slightly lower cost savings – $100m against Hilton's $115m – and has virtually no overlap in casinos, it would make better use of ITT's Sheraton brand, which Hilton was probably planning to drop.

Whether Hilton can outbid Starwood is doubtful. But it could raise its mixed cash-and-shares offer a little and try to undermine Starwood's paper ahead of ITT's November 12 shareholder meeting. At least investors now have a real decision to make.



AT&T

Michael Armstrong, AT&T's new boss, comes with all the right credentials. He transformed Hughes Electronics from a stagnant military contractor into a rapidly growing satellite communications group. He has a thorough understanding of technology from his years at Hughes and International Business Machines. And as an enthusiastic outsider, he should be able to shake off the management paralysis that has gripped the telecommunications giant. AT&T's board will certainly give him headroom: after two false starts in two years, it cannot afford to lose another chief executive.

Whether he will be able to solve the group's strategic problems is anyone's guess. He starts with some valuable assets: AT&T's powerful brand, a strong balance sheet and still nearly half the US long-distance market. But long-distance profits are being squeezed, the group has failed to crack open the high-margin local telecoms market, and its international strategy looks ragged. As rivals consolidate around it, AT&T is in danger of missing the boat.

Initially, Mr Armstrong will probably confine himself to cutting costs – AT&T's general expenses are still a bloated 30 per cent of revenues – and selling non-core operations. He may also hope that the regulatory environment moves in his favour. If GTE takes over MCI, AT&T may eventually be allowed to buy a Baby Bell. But investors will expect some sort of strategic initiative soon. Mr Armstrong does not have long to get his feet under the desk.

Telecom Italia

The Italian taxpayer has profited immensely from the reorganisation of the country's telecommunications sector. The Treasury's battle to merge Telecom Italia with its parent, Stet, so shrinking the previous holding company discount, has been vindicated: over the past year, the value of the state's stake has more than doubled to $15bn, outpacing a sharply rising market. Still, whether investors will profit as handsomely in the coming privatisation is more doubtful.

There is nothing terribly wrong with the stock. TI's domestic position looks well protected. Competitors will find it hard to get established, given the paucity of rival infrastructure and the hilly terrain. The main weakness is that a regulator has yet to be appointed. When the details are filled in, they could contain devils – as investors in last year's Deutsche Telekom float know too well. With TI's interconnect rates about twice the level Brussels considers best practice and tariffs out of kilter with costs, a tough regulator could make the company's life difficult.

TI's European strategy is a bit shambolic: it is linked with AT&T, which is allied with Mannesmann in Germany, which in turn is competing with TI at home. Elsewhere, TI has a history of paying high prices for acquisitions. All this would matter little if TI was cheap. But with the shares now trading on 20 times next year's earnings – albeit a lowish 4 times earnings before interest, tax and depreciation – it is hard to get excited.

City regulation

Far more important than the structure of Britain's new unified City regulator will be its philosophy. Throughout financial regulation there is a difficult tension: protecting investors and consumers on the one hand; letting markets work without too much bureaucracy on the other. This would be difficult enough even without political incentives that *all* point in the direction of over-cosseting the customer.

The result is a constant danger: over-regulation whose costs are not justified by its benefits. Moreover, the more involved regulators become in vetting businesses, the greater the moral obligation on them to arrange expensive bail-outs if things go wrong – and the less the incentive for investors themselves to keep an eye out.

Getting this balance right will depend on nitty-gritty judgments in individual markets, not across-the-board rules. Nevertheless, it matters that the planned legislation at least acknowledges the trade-off. Consider, for instance, the three high-level aims proposed by the embryonic new organisation: protecting consumers; promoting clean and orderly markets; maintaining confidence in the system. This is all splendid stuff. But give the regulator these objectives alone and there is an obvious danger of overkill. Why not, therefore, set alongside them two others: to keep the burden of regulation as low as possible; and to promote public understanding of the principle of *caveat investor*?

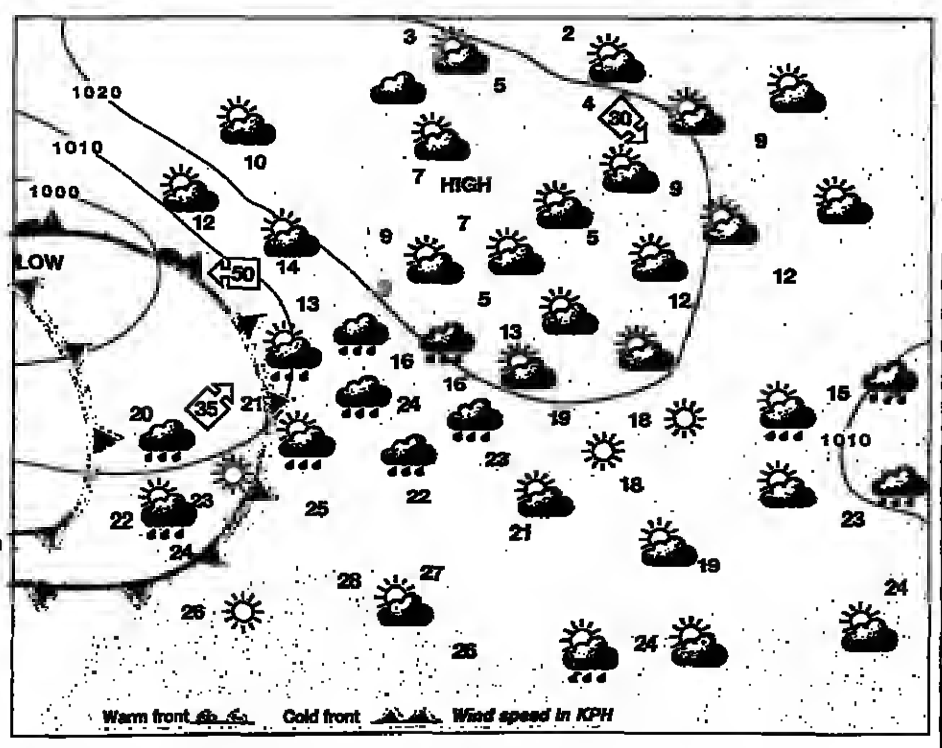
Additional Lex comment on Hambros, Page 23

Europe today

The Low Countries, Germany, Poland and ths Czech and Slovak republics through to ths Balkans will be calm and settled, with morning fog clearing to leava a dry day with sunny spells. Much of France will be unsettled with rain clearing to leave sunshine and showers. Portugal will start fine but rain will move in from the Atlantic. Southern Spain will be cloudy with thundery rain but the rest of the country will be dry with sunny periods. Northern Norway will have rain but Scandinavia will be mostly fins with sunny periods.

Five-day forecast

Western, central and eastern Europe will be largely fine and dry. The Mediterranean will be unsettled and windy with rain and thunderstorms in many places, although these conditions will gradually move eastwards during the week. Western Scandinavia and the Baltic sea countries will become windy and cold from Thursday.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

	Maximum\	Beijing	sun 22	Cardiff	fair 13	Frankfurt	fair 7	Madrid	fair 23	Rangoon	fair 31
	Celsius\	Belfast	fair 11	Casablanca	thunder 26	Geneva	rain 14	Majorca	sun 25	Reykjavik	fair 7
Abu Dhabi	sun 33	Belgrade	cloudy 12	Chicago	shower 9	Gibraltar	rain 21	Malta	thunder 24	Rio	shower 25
Accra	fair 31	Berlin	fair 7	Cologne	sun 10	Glasgow	fair 10	Manchester	fair 12	Rome	rain 23
Algiers	rain 28	Bermuda	cloudy 24	Dakar	fair 30	Hamburg	fair 6	Manila	thunder 30	S. Frsco	sun 22
Amsterdam	sun 9	Bogota	shower 18	Dallas	shower 23	Helsinki	fair 2	Melbourne	fair 17	Seoul	fair 21
Athens	sun 18	Bombay	shower 35	Delhi	fair 31	Hong Kong	fair 29	Mexico City	shower 21	Singapore	cloudy 32
Atlanta	fair 21	Brussels	sun 10	Dubai	sun 33	Honolulu	fair 30	Miami	fair 28	Stockholm	fair 5
B. Aires	fair 24	Budapest	cloudy 8	Dublin	fair 11	Istanbul	fair 15	Milan	rain 18	Strasbourg	cloudy 10
B.ham	fair 13	C.hagen	fair 7	Dubrovnik	rain 17	Jakarta	fair 33	Montreal	rain 9	Sydney	shower 19
Bangkok	shower 34	Cairo	fair 25	Edinburgh	cloudy 9	Jersey	cloudy 14	Moscow	rain 6	Tangier	rain 24
Barcelona	fair 24	Caracas	fair 32	Faro	thunder 24	Johannesburg	sun 23	Munich	cloudy 8	Tel Aviv	shower 25
						Karachi	fair 33	Nairobi	cloudy 25	Tokyo	fair 24
						Kuwait	cloudy 34	Naples	thunder 20	Toronto	rain 9
						L. Angeles	sun 22	Nassau	thunder 28	Vancouver	fair 12
						Las Palmas	cloudy 26	New York	fair 15	Venice	rain 16
						Lima	cloudy 24	Nice	cloudy 20	Vienna	fair 9
						Lisbon	shower 22	Nicosia	thunder 23	Warsaw	fair 5
						London	fair 13	Oslo	fair 9	Washington	sun 15
						Lux.bourg	fair 9	Paris	fair 13	Wellington	shower 13
						Lyon	rain 16	Perth	fair 28	Winnipeg	fair -1
						Madeira	shower 25	Prague	fair 5	Zurich	rain 10

FINANCIAL TIMES
COMPANIES & MARKETS
© THE FINANCIAL TIMES LIMITED 1997 Tuesday October 21 1997 Week 43

INSIDE

Facing a future of market forces

Lionel Jospin's Socialist-led French government has succeeded where its centre-right predecessor failed – by bringing France Telecom safely, and lucratively, to market. A record 3.9m individual investors were attracted by the initial public offering, which will generate FFr42bn ($7.16bn) for the French state. But will the company, headed by Michel Bon, left, live up to expectations? Page 20

India eases gold restrictions
India, already one of the world's biggest gold bullion markets, is likely to consume more of the precious metal in the long term following a further easing of import restrictions. Page 31

Taiwan stocks continue slump
Taiwan's stock market was due for a correction, but few thought it would fall this fast – or this far – and fewer still are predicting where it will end. Page 42

Bonds market approaches landmark
Europe's medium-term note market has become popular as a more convenient and sophisticated way of tapping the eurobond market. At $972bn, the market is expected to top the $1,000bn milestone within the next fortnight. Page 30

Coffee prices take a tumble
Coffee prices fell by more than 5 per cent in London as investment funds ignored factors which suggested prices might rise. Page 31

Companies in this issue

Market Statistics http://www.FT.com

CROSSWORD, Page 32

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Thyssen	413	+	6
Viag	860	+	6.5
Falls			
BMW	1390	–	33
Karstadt	587.5	–	6.5
Linde	1125	–	15
Rosenthal	151	–	5

NEW YORK ($)			
Rises			
Fairfield Cmr	49⅝	+	4⅝
Loxmark Intl	34⅛	+	4⅛
Santa Fe Pac	50⅝	+	9½
Falls			
Fst Washgtn	26	–	1¼
Navistar Intl	21⅞	–	2⅛
Taiwan Semi	22¼	–	3⅛

LONDON (Pence)			
Rises			
PSD Group	390½	+	34
Nichols (V)	283½	+	16
Falls			
Elan	128	–	14
Peel Hldgs	675	–	55
PizzaExpress	820	–	32½
RMC Group	960	–	24

TORONTO (C$)			
Rises			
NBS Tech	3.5	+	0.5
Premium Incm	16.5	+	1.8
Unicorp En B	6.0	+	1.0
Falls			
Becker Mlk B	10.0	–	1.5
O-Enter	2.55	–	0.85
Rayrock Ylw	6.35	–	0.85

PARIS (FFr)			
Rises			
Bert Faure	303.2	+	17.2
Cap Gemini	459	+	12.7
Chrstn Dior	753	+	23
Falls			
Accor	1054	–	38
Interbail	171.2	–	13.8
Seb SA	714	–	49

TOKYO (Yen)			
Rises			
Amada Co	649	+	15
Calpis	510	+	25
Seiyo Food	539	+	40
Falls			
Calsonic	615	–	44
Kyowa Hakko	610	–	32
Nissan Motor	635	–	32

HONG KONG (HK$)			
Falls			
Bnk E Asia	24.7	–	1.05
Beijing Ent	28.6	–	2.9
Cheung Kong	70.25	–	5.75
Hang Seng Bk	84.25	–	4.75
Shanghai Ind	34.7	–	4.0
TVB	24.55	–	1.35

BANGKOK (Baht)			
Rises			
Asia Credit	89.0	+	8.0
Bata Shoe	25.0	+	2.25
Fancy Wood	28.75	+	2.25
Falls			
Castle Peak	32.5	–	3.5
Delta Elec	342.0	–	38.0
Land & House	35.5	–	3.75

SKF to cut European operations

Swedish group announces 2,000 job losses in drive to boost efficiency

By Greg McIvor in Stockholm

SKF of Sweden, the world's biggest supplier of rolling bearings, is to cut more than 2,000 jobs - almost 5 per cent of its workforce - in a drive to prune costs and boost efficiency.

The company said the brunt of the cutbacks would fall on western Europe, where growth has lagged behind the pace of SKF's expansion in eastern Europe, Latin America and Asia-Pacific. Some jobs would also be cut in the US.

The news came as SKF posted a decline in profits for the nine months to September 30, from SKr1.2bn ($157m) to SKr1.08bn, due mainly to a SKr750m charge taken in the third quarter to cover the cost of restructuring.

SKF is the second big Swedish industrial group to announce sweeping job losses in a few months. Electrolux, the household appliance group, said in June it was cutting 11 per cent of its 105,000 workforce.

Both companies are controlled by Sweden's Wallenberg industrial empire. It had been widely expected to shake up its businesses following the arrival earlier this year of Percy Barnevik to chair Investor, the key Wallenberg investment vehicle.

The cutbacks reflect SKF's desire to reduce its dependence on the west European market, which accounted for 55 per cent of sales at year-end.

Its most widely traded B shares were unchanged at SKr231.

Under chief executive Peter Augustsson, the group has focused on developing a global strategy aimed at tapping faster-growing international markets. SKF said the measures were part of a rationalisation plan announced two years ago to upgrade plants in order to raise efficiency and drive sales and administrative costs below 15 per cent of annual turnover.

Measures include merging invoicing and accounting functions at SKF's west European sales companies, and a review of marketing and sales methods.

The package, due to be completed in 1999, would reduce annual overheads by SKr700m, SKF said. Yesterday's job losses would affect most west European units, roughly in proportion to their size.

Germany is SKF's largest production centre, with some 7,000 employees. Italy and Sweden follow with around 6,000 employees each.

The company said demand was increasing for its products in most markets but severe pressure on prices was set to continue.

Operating earnings rose 8 per cent in the first nine months, from SKr2.16bn to SKr2.24bn. Sales advanced from SKr25.4bn to SKr27.6bn.

The company, seen as a bellwether of global economic trends because of its exposure to many sectors, said that demand had strengthened in western Europe, eastern Europe, Latin America and the US, although business in Asia-Pacific had been hit by financial instability.

Second Japanese bank buys stake in UK pubs

By John Willman in London

A second Japanese investment bank has ventured into the UK pub market by backing Avebury Inns, a new company which is about to acquire 147 licensed houses from Wolverhampton & Dudley Breweries, a group based in the Midlands region of England.

Daiwa Europe is financing the £16.4m ($26.5m) purchase of the tenanted pubs, which are mainly in the Midlands and north of England. Last month, Nomura became the largest pub landlord in Britain with the acquisition of two chains of pubs from Grand Metropolitan and Foster's, the Australian brewing group. Nomura paid £1.2bn for the 4,300 pubs in the Inntrepreneur and Spring Inns chains.

Since entering the securitised bonds business, Nomura has invested more than £6bn in three pub groups, the US's third-largest leasing company, AT&T Capital, 57,000 Ministry of Defence homes and a rolling stock leasing business. It finances the deals by selling bonds backed by the income from the businesses.

The price paid for each of the pubs in Avebury Inns is less than half that paid by Nomura. David Myers, chief executive of Avebury Inns, said the company hoped to buy further pub groups.

Most of the large pub companies have been selling their poorest performing tenanted houses amid increasing competition from managed branded pubs. Bass, for example, is reducing its estate by 300 pubs, while Greenalls Group has sold a similar number.

Many of these are being snapped up by smaller pub companies. Securitised bonds can offer a cheaper way of financing the purchases than share issues, since debt investors will accept a lower return backed by a mature income stream.

Avebury Inns is chaired by Rodney Mann, a member of the Mann brewing family. Its finance director is Gary Couch, a chartered accountant who has worked for Saville's, the estate agent.

Mr Myers has worked for Whitbread and GrandMet, and has spent the past four years advising pub companies on financing their acquisitions.

London Metal Exchange plans overhaul

By Kenneth Gooding in London

The London Metal Exchange yesterday signalled a radical reform in the way the market operates.

The exchange – the world's leading market for metals – is planning to make substantial changes to stop further falls in the number of its ring dealing members and to reduce "aberrations" in its markets.

Nearly every non-ferrous metal contract signed in the world makes reference to the prices set by LME ring dealers in their twice daily 'open outcry' trading sessions.

However, this year there have been "squeezes" in the LME's aluminium and zinc markets, causing the board to intervene and limit trading. Squeezes occur when there is a sharp reduction in the amount of a metal available for immediate delivery.

David King, the chief executive, revealed in a notice to members yesterday that the LME was considering these issues and would welcome the views of members, their clients and other interested parties by November 3.

In the past 10 years, LME turnover and membership has grown rapidly but the number of ring dealers has halved to 15.

Robin Bhar at Brandeis (Brokers), a subsidiary of Pechiney of France, said: "This has been forced on the LME because ring dealers, who spend £1m ($1.62m) a year each to keep teams in the ring, are annoyed about losing business to the LME's associate brokers."

Kaith Gaunt, managing director of Amalgamated Metal Trading, one of the surviving ring dealers, said the LME could make the ring more attractive for members to join. Fees and rebates could be adjusted and rules could be changed to encourage and, if necessary, require leading associate members to join the ring.

Mr Gaunt, speaking during London Metals Week this month, warned: "If ring dealing membership drops to a level that threatens the credibility of LME pricing, then few users of the market will benefit and trade will be forced into opaque and unregulated pricing with all the attendant risks."

As for "market aberrations", Mr King said his board was concerned about the relative frequency of "squeezes" and was reviewing its procedures.

Arrangements to give more information about big futures and options positions and stock boldings was in the pipeline.

The LME would give more information when it was forced to intervene in one of its markets or to discipline members.

Mr Gaunt said there was no single solution to market aberrations, but the LME might consider changing its requirements so that more metal would qualify for delivery to its warehouses.

This would make it more difficult for an organisation to control a substantial part of the stock.

There should also be a general intervention policy that the LME could publicise in advance.

Commodities, Page 32

KPMG in talks for only two weeks

Rivals' link-up plan spurred Ernst & Young merger move

By Clay Harris and Jim Kelly in London

KPMG and Ernst & Young, the accountancy firms, had been in serious talks for only two weeks about their proposed merger, they said yesterday.

The two groups, which plan to create the world's largest accountancy firm with annual revenues of more than $18bn, formally announced the merger plan yesterday. They said they had been spurred on by the proposed link-up between their Big Six rivals, Price Waterhouse and Coopers & Lybrand.

The new firm would bsve 12,800 partners and more than 163,000 staff in 135 countries. It would have a UK chairman, a US chief executive and headquarters in the Netherlands.

The proposed mergers, which would cut the number of global firms to a Big Four, have raised fears of reduced competition. They face scrutiny from regulators in Europe, the US and Japan.

Colin Sharman, chairman of KPMG International and chairman-designate of the merged firm, said he was "reasonably confident" both proposed deals would be cleared. He played down the competition effect in the "very segmented and limited market" of FT-SE 100 companies, of which only 12 have an auditor outside the two proposed firms. He said: "I think that the choice of one in four is pretty acceptable."

Taking a global view: KPMG's international chairman Colin Sharman, left, and Ernst & Young senior partner Nick Land after yesterday's formal merger plan announcement Picture: Brendan Corr

Although the timing of merger talks had been influenced by the PW-Coopers deal, "everybody has danced with everyone else over the last six months", Mr Sharman said, adding: "We felt that we needed to react." But he denied tha plan was a spoiler to thwart rivals. "It would be an extremely expensive way of scuppering PW-Coopers."

Ian Brindle, PW's senior partner in the UK, said: "We shall keep on moving forward. They have a long way to go."

Like their competitors, KPMG and E&Y stressed the need for grester size and resources to meet the growing demand from clients for global services. "If you lose scale, you begin to lose advantage," Mr Sharman said.

Nick Land, E&Y's UK senior partner, described KPMG as "our toughest competitor" and the "natural choice" for a merger. Mr Sharman said: "For some time now, the people we'va been bead to head with are Ernst & Young."

The merger requires approval of partners in each national firm of both organisations. The combined firm would have its headquarters in Amsterdam, where KPMG is based. "There is a symbolism about Amsterdam in that it's about being global." Mr Sharman said.

KPMG is the only one of the Big Six bigger in Europe than in North America.

Mike Henning, New York-based chief executive of E&Y International, would be chief executive of tha combined firm. Philip Laskawy, E&Y International chairman, would take that title in tha US. In the UK, Mr Land and Mike Rake, KPMG's chief operating officer, will lead the merger.

Observer, Page 15

Banks in $16.6bn paper losses after Japan share falls

By Gillian Tett in Tokyo

The fall in the Japanese stock market is set to leave tha 20 major Japanese banks registering more than Y2,000bn ($16.6bn) in paper losses on the shares they hold.

The losses, recorded in the first six months of tha 1997 fiscal year, will intensify the financial squeeze the banks face in the run-up to Japan's Big Bang deregulation.

In particular, they are likely to cut the banks' financial "cushion" of hidden reserves – and could make it harder for them to write off their huge property-related bad loans.

The problem has arisen because Japanese banks traditionally hold huge stakes in other companies which are subject to a particular form of accounting treatment.

If the market value of these shares rises, companies are not allowed to register "profits" unless they sell them. But if the market value falls below book value, the company recognises this as an accounting "loss".

The Japanese stock market has fallen recently: on September 30 it closed at 17,887.71, down from 18,003.40 six months earlier. On top of this, construction and banking stocks – of which Japanese banks bold large numbers – bava performed particularly badly.

Consequently, over the last few days 12 out of the major 20 banks have warned that they will post large securities appraisal losses when they publish their half-year results next month. The losses – which affect banks including Bank of Tokyo Mitsubishi, Daiwa Bank, Dai-Ichi Kangyo Bank, Industrial Bank of Japan and the Long Term Credit Bank – total some Y1,450bn so far. Analysts expect them to rise well abova Y2,000bn when the other eight banks report their results.

The banks are expected to offset the losses by selling some of their other shares to realise "unrealised" gains on them. The banks had some Y8,700bn of such unrealised gains in March 1997.

This strategy means securities appraisal losses will not significantly affect current business profits. As Yukiko Ohara of UBS in Tokyo said: "Probably about 80 per cent of this has been offset by hidden reserves on equity."

However, if the level of unrealised gains is cut too aharply, it could make it harder for the banks to write off bad debt. With Big Bang looming, all the banks face mounting pressure to make large provisions for bad loans. Most had also assumed they would use the unrealised gains as a key "cushion" to offset these bad loans.

Furthermore, if the level of unrealised gains is cut too sharply, it could affect the banks' measure of financial strength.

This is because in Japan the banks are allowed to count some 45 per cent of the value of their unrealised gains as "capital" for the BIS ratio (the usual measure of financial health). Thus, if the unrealised gains fall sharply, they could lower the BIS ratio.

World stocks, Page 39

Armstrong named as new AT&T chairman

By Richard Waters in New York

The outsider appointed yesterday to the top job at AT&T has pledged that the company will step up its push into the international and local US telephone markets, if necessary by acquisition.

Michael Armstrong, former chairman of Hughes Electronics, was named to succeed Robert Allen as chief executive and chairman, effective November 1. The appointment concludes a three-month search for Mr Allen's successor, prompted by the resignation of the former heir apparent, John Walter.

Mr Armstrong, 59, was chosen over John Zeglis, 50, the leading internal candidate who at one stage was thought to have the inside track on taking over from Mr Allen.

Mr Zeglis' chances of becoming chairman remain good, however, following the US telecommunications group's decision yesterday to name him president.

Mr Armstrong joins AT&T during a period of upheaval in the US telecoms industry, as the barriers between local and long-distance carriers begin to crumble.

AT&T, the country's biggest long-distance company, this year started, but abandoned, merger talks with SBC Communications, one of the biggest local carriers.

Mr Armstrong said yesterday: "I think that acquisition is going to be part of our future," though he added that the company would also consider other routes, including joint ventures and partnerships. "We've got to go global, and we've got to go local," he said.

The merger talks with SBC were called off after the Federal Communications Commission ruled out such a combination as anti-competitive. Since then, however, GTE, which is mainly a local carrier, has made a $28bn bid for MCI, the country's second-biggest long-distance company.

MCI has also been the subject of an unsolicited bid from WorldCom. It agreed a merger with British Telecom late last year.

Commenting on the tussle over MCI, Mr Armstrong said: "I intend to make some friendly visits to Washington to find out how they [the FCC] see the landscape as a result of this."

Among the questions raised by GTE's bid has been whether, if allowed, other local/long-distance combinations would be allowed, such as between AT&T and SBC.

Mr Armstrong said yesterday: "Obviously, as increasing critical masses occur in the marketplace, it just seems logical that it presents AT&T with a better opportunity for [gaining] critical mass as well."

The prospective AT&T chairman was at pains to play down suggestions that the company had been sidelined by its succession problems during a period of significant change in telecoms.

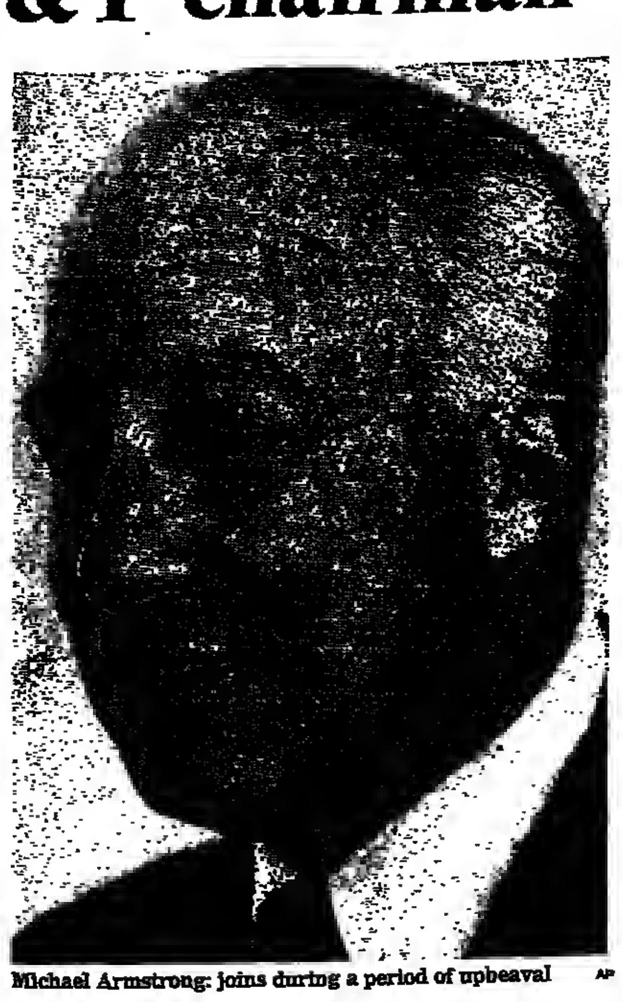
Whatever the fate of MCI, there would still be "a lot of industry left", he said, leaving AT&T with the chance to form alliances with a wide number of local carriers and international telephone companies.

Mr Armstrong was a leading candidate to become Mr Allen's number two a year ago, when AT&T launched a search outside the company for an executive who could eventually take on the top job.

He is believed to have wanted to take over from Mr Allen after a brief interlude, however, and the company selected Mr Walter on the understanding that he would not be named chief executive for more than 14 months. Mr Walter left when the company's board refused to confirm him as the next chief executive.

Mr Armstrong will have to wait less than two weeks before assuming the top job from Mr Allen, 62. However, the current chairman would continue as chairman of the executive committee until February next year, AT&T said.

Like Mr Walter, Mr Armstrong has no direct experience of running a telecoms company. However, he was responsible for developing telecoms products at IBM, and over the past five years has helped to turn Hughes, a subsidiary of General Motors, into a well-regarded provider of satellite and other communications equipment and services.



Michael Armstrong: joins during a period of upheaval AP

Shares rise on plan to sell credit card business

AT&T's shares jumped by 5 per cent yesterday morning as the company reported stronger-than-expected quarterly earnings, announced plans to sell its troubled credit card business and put its management succession problems behind it, Richard Waters writes.

The company's latest quarterly earnings, amounting to $1.153bn after tax, or 71 cents a share, were 15 per cent below those of a year ago.

However, the results at least indicated that the company had managed to shore up its core long-distance business, which had slipped badly over the past 12 months. Robert Allen, who will step down as chairman and chief executive at the end of this month, said that the "low-water mark in our results is behind us."

The latest figures showed a 1 per cent decline in revenues from long-distance calling, to $11.7bn, despite a 10 per cent increase in calling volumes – a reflection in part of AT&T's greater use of free minutes as a marketing device to attract new customers. Overall, revenues rose 1 per cent to $13.2bn.

AT&T also put its Universal Card Services business up for sale yesterday.

Although it has been one of the most successful non-financial companies in attacking the credit card business, attracting more than 10m cardholders, AT&T has suffered from high costs and rising credit losses.

After a management overhaul, the business earned profits of $24m in the latest quarter, compared to a loss of $53m a year ago, while revenues declined slightly to $378m.

Universal Card Services is the second large US credit card operation to be put up for sale in recent months, after Advanta. The company also said it would sell its AT&T Solutions Customer Care unit.

AMERICAS NEWS DIGEST

Energy groups in $1bn merger

The reshaping of the US energy industry advanced into mid-stream operations yesterday with a $1bn deal which will link the distribution networks of Kinder Morgan Energy Partners and Santa Fe Pacific. The fusion of the two publicly-traded partnerships would create the largest independent enterprise of its kind in the US, according to Richard Kinder, Kinder Morgan chairman.

Predicting further acquisitions, Mr Kinder said he expected overheads to be reduced by consolidating administrative and operational functions. In the longer term, the concern would expand pipeline networks in Santa Fe's western territories, which are among the fastest growing energy markets in the nation.

Santa Fe unit-holders will receive 1.39 Kinder Morgan units for each of their units – representing a 28 per cent premium over recent trading prices. Kinder Morgan will also pay about $85m in cash for the stake held by Santa Fe's general partner, and its management team has agreed personally to invest $20m on closing. This meant management would be "highly motivated" to work towards extracting the synergies and economies necessary to meet a target of raising per unit distributions to at least $2.25 in the second quarter of next year.

Christopher Parkes, Los Angeles

■ FOODS

Nabisco Holdings posts 15% rise

Nabisco Holdings, the US foods group, yesterday reported a 15 per cent increase in third-quarter profits but expressed dissatisfaction with the gains. The company, maker of Oreo, SnackWell's and Chips Ahoy! cookies as well as Ritz crackers and A1 steak sauces, said key factors in the results were earnings gains in core snack categories, including crackers, nuts and confections, as well as productivity improvements in the US Biscuit Co.

The quarter's strengths were partially offset by weakness in some domestic products and softness in South America. Net income for the quarter was $92m, up from $80m in the 1996 period, excluding $17m of restructuring-related expenses taken last year. Net income per share rose 13 per cent to 34 cents, against 30 cents last year. Worldwide net sales of $2.2bn for the period were 2 per cent down on the $2.24bn in the third quarter of 1996, Nabisco said.

"While our earnings continue to benefit from our productivity and cost control programmes, we are very dissatisfied with our top line performance," said John Greeniaus, chief executive. "Nevertheless, we remain confident that our fundamental strategies are sound."

Reuters, Parsippany, New Jersey

■ APPOINTMENT

Hughes Electronics names chief

Michael Smith, brother of General Motors chairman, John Smith, was named yesterday to succeed Michael Armstrong as head of GM subsidiary Hughes Electronics.

After five years as vice-chairman in the shadow of Mr Armstrong, lured away to lead the AT&T telecoms group, his first task will be to complete the Hughes restructuring followed by a long-haul project to consolidate the company's lead in the space and satellites business.

Mr Smith, 54, has been at Hughes since 1986, and previously spent almost 20 years in other GM businesses. Charles Noski, who only recently gave up his Hughes vice-chairmanship for the chief financial officer's job at defence contractor United Technologies, is to return to Hughes as president.

Mr Smith said yesterday his long-term objective was to grow space and telecommunications operations at 20 per cent annually for the next five years.

Hughes, which is in the closing stages of disposing of its defence operations to Raytheon and merging its Delco electronic automotive components business in to its parent's main parts arm, is world leader in satellite manufacture. After the recent addition of a majority stake in the PanAmSat satellite group, it is also among the leaders in the space services business, providing distribution services.

Christopher Parkes

■ METALS

Higher prices lift Cominco

Cominco, the Canadian zinc and copper producer, yesterday announced that third-quarter net earnings soared to C$38m (US$27.4m), up from C$5m last time, on higher zinc and copper prices and increased sales of copper products. Sales for the quarter reached C$484m, an 8 per cent increase over last year. Larger revenues from higher zinc and copper prices were partially offset by lower prices for lead, nickel, gold and silver, and lower sales volumes for refined zinc and lead, as well as, zinc concentrate.

Zinc LME settlement prices averaged 73 cents per pound during the third quarter, up sharply from 45 cents during the same period last year. That resulted in a record operating profit of C$50m at the company's Red Dog mine in northern Alaska, compared with C$10m for the third quarter of 1996. The company expects sales volumes of zinc concentrate will rebound in the fourth quarter reflecting the seasonality of sales from northern mines.

Scott Morrison, Vancouver

Regulators hold key in merger moves

Accountancy groups optimistic that deals will go through, report Jim Kelly and Clay Harris

Only one thing seems to stand between the leaders of the Big Six accountancy firms Ernst & Young and KPMG and their dream of creating the world's biggest professional services firm – the possible objections of financial regulators in Brussels, Washington and Tokyo.

Colin Sharman, global head of KPMG and chairman designate of the proposed super-firm, said in London that there was no doubt these regulators would wish to take a close look at the proposed merger.

But he said the chances of approval "were better than fifty-fifty" and that the combination, alongside that proposed last month by Coopers & Lybrand and Price Waterhouse, would not lead to unfair market dominance: "I think a choice of one in four is pretty acceptable."

"Clearly it is not going to be a pushover – but I think we have a pretty good chance," agreed Nick Land, head of Ernst & Young in the UK and at the helm of the new super-firm in the UK if the merger goes ahead. He confirmed that regulators had already been notified.

Both denied that they were in a regulatory race with the other merger pair to get their proposals formalised first. "We expect the regulators to look at both proposals at the same time," said Mr Land. They expect regulators to take up to six months to make a ruling.

They brushed aside other potential hurdles to the deal. Voting on the plans is expected to take place in the new year – although US partners may vote sooner.

"In the US they are a lot further down the track than some of us elsewhere," said Mr Sharman. He said talks on both sides of the Atlantic had been under way for about three weeks – but had been more intensive in New York.

Mr Land said that partners meeting in Birmingham last Friday had shown "overwhelming support – past my expectations" when told of the proposals. However, he acknowledged that all those involved in mergers were now under pressure to push ahead so as not to hand the initiative to competitors.

While repeating the now familiar logic that global clients were demanding global professional services, Mr Sharman admitted that the merger had been conceived in the shadow of the PW-Coopers announcement. "It's just ridiculous to pretend it wasn't influenced by that – the competitive situation has changed and you have to do something about it."

They made clear that mergers were being fired by the need to fund investment – as the firms could not finance big projects by relying on debt or taking profits from the partners. Funds were needed to develop new products and services, internal IT and knowledge systems, and to break into emerging markets.

Mr Land said that a modest programme to develop a new product cost $100m-$200m and that breaking into the former Soviet Union alone had cost $90m. Investment in technology was running at between 8 per cent and 10 per cent of annual revenues. "We are really only just begining to realise the enormity of the costs."

The firms also appear relaxed about any potential for adverse reaction among clients. Mr Sharman said initial soundings were positive: "Chairmen and chief executives understand what we are doing and respect it – finance directors, where they have expressed views, have talked about lack of choice."

But he said it was ironic that those companies expressing worries about lack of choice in the audit market were the same large multinational companies with global ambitions which were pushing their professional advisers to provide global services.

In briefings in London both firms were keen to play down two criticisms of the proposed merger – that it was US-inspired and that it involved two firms desperate to find any partner. "We will have a strong European influence on this," said Mr Sharman. "I will be chairman and we will base the headquarters in Amsterdam."

In a rare side-swipe at the merger proposed by Price Waterhouse and Coopers & Lybrand, Mr Land added: "This is a different flavour from the press release put out by PW which was US, US, US." However, the siting of the headquarters is largely symbolic, while the new chief executive-designate of the super-firm is Mike Henning – currently based in New York and head of Ernst & Young globally.

On choice of partners, both firms said they had secured their ideal. "These we were the guys we were worried about in the market place," said Mr Land. "If you can't beat them join them."

They said they had been talking informally for several years and had similar cultures and a multi-disciplinary approach based on customer service. They denied making recent merger overtures to Deloitte Touche Tohmatsu, although Mr Sharman added: "Everybody has danced with everybody in the past six months."

According to International Accounting Bulletin, the merged firm would dominate in Europe and the US in terms of revenues. In Asia, KPMG and E&Y's revenues are level with those of the other proposed merged firm of PW-Coopers & Lybrand.

However, the merger is unlikely to put them at the top in Japan and Latin America, where they would rank third.

Additional reporting by Robert Rice and Altay Ural

A global force

	Ernst & Young	KPMG	Combined
Countries world-wide	130	135	135
Partners	5,000	6,800	12,800
Total partners & staff	79,750	83,500	163,250
Revenues by region quoted in $bn			
Americas	4.9	3.7	8.6
Europe/Middle East & Africa	3.4	4.7	8.1
Asia	0.8	0.8	1.6
World-wide	9.1	9.2	18.3

Source: Companies

*Ernst & Young figures to June 30 1997
**KPMG figures to 30 Sep 1997–all estimates and unaudited

KPMG ERNST & YOUNG

New drugs lift sales growth at Eli Lilly

By Tracy Corrigan in New York

Eli Lilly shares rallied yesterday after the US pharmaceuticals company's third-quarter earnings showed new products performing strongly.

The shares rose $1 to $63⅞ in morning trading, after the group reported earnings for the third quarter of 41 cents a share, slightly above analysts' estimates.

Net income of $456.9m was up from $415.6m in the same period last year, following a 20 per cent increase in worldwide sales to $2.16bn. The company said its 19 per cent increase in operating income was helped by strong sales growth, particularly from newer products; a significantly improved sales mix; production efficiencies and procurement savings.

"New products are performing well. Zyprexa was launched last year and is already one of the most successful drugs ever," said Viren Mehta, a healthcare specialist at Mehta & Isaly.

In its first 12 months on the market, Zyprexa sales totalled $550m. The drug, which treats schizophrenia, had sales of $302m in the third quarter, a 29 per cent increase over the second quarter. Since the beginning of the year, its share of new antipsychotic prescriptions has more than doubled, to 15.1 per cent.

"Results like these and our outlook for the future substantially contributed to the decision by the board of directors to split the stock and increase the cash dividend," said Randall Tobias, chairman and chief executive officer. The company announced a two-for-one stock split last month.

Analysts said the outlook for new drugs in the pipeline – such as Evista, for the treatment of osteoporosis – was also positive. Evista has been granted priority review status by the US Food and Drug Administration. Gemzar, for the treatment of non-small-cell lung cancer, is under regulatory review. Sales of Prozac, which treats depression, rose 17 per cent in the US to $578m.

Universal Studios in $5bn deal with HSN

By Christopher Parkes in Los Angeles

A powerful new force in the US television industry was created yesterday as Universal Studios announced a $5bn-plus agreement to merge most of its TV assets into HSN, a diversified group built up in the past two years by Barry Diller.

Operations of the new company, to be called USA Networks, will include cable, broadcasting, television programme production and electronic retailing via television and the internet.

Universal, a subsidiary of Seagram, will receive about $1.2bn in cash and a 45 per cent stake in HSN, valued at almost $4.1bn in return for all domestic operations of USA Networks, and half shares in overseas USA businesses.

It will retain full control of its TV library, comedy production, and international distribution and production facilities.

The link between the well-heeled Seagram group and Mr Diller, regarded as one of the most astute and successful executives in US television was welcomed on Wall Street, where HSN stock gained $4⅝ to $43¼ in early trading.

Seagram, rising C$2 in Toronto to C$47, increased $1¹³⁄₁₆ to $34⅝ in New York.

The link, which will also involve HSN's partner Liberty Media, controlled by John Malone's Tele-Communications Inc – the largest US cable provider – appears to answer investors' criticisms of Universal's relative weakness in the television business.

The first part of its response came recently when it resolved a long-running dispute with its television partner Viacom, and took full control of the USA Network, which is the second most-watched cable service in the US.

Seagram, the last of the leading Hollywood groups to own a network business, paid debt-laden Viacom $1.7bn for its 50 per cent stake. That deal also gave it 100 per cent of the Sci-Fi Network, which is growing its US subscriber base at double-digit rates, and is seen as a likely winner in international markets.

Mr Diller, who launched the Fox Television network, a News Corporation property, and presented the first substantial channel to the entrenched leaders of US broadcasting, ABC, NBC and CBS, will be chairman of the new company.

He is also expected to join the main board of Seagram, while Edgar Bronfman Jr, president and chief executive of Seagram, will join the HSN board along with three other members to be designated by Universal.

"The value of this transaction lies in two areas: assets and partnership," Mr Diller said in a statement. The mingling of assets, which include three cable networks – USA, Sci-Fi and Home Shopping Network – 25 broadcast stations, the Ticketmaster entertainment ticket sales group, TV production facilities and internet shopping operations "give us great ability to grow into a major enterprise," he added.

Mr Diller's career has included spells as head of primetime programming at ABC and a 10-year run as head of Paramount Pictures.

Lafarge to buy Spanish stake

By David White in Madrid

Lafarge, the French cement group which last week launched a £1.67bn ($2.69bn) hostile bid for Redland, the UK building materials concern, yesterday announced plans to extend its cement holdings in Spain through a stake in one of the country's last family-controlled producers.

The French group, which already includes the Spanish cement company Asland, said it had reached agreement with its rival Ciments Français to take over a 39 per cent holding in Barcelona-based Cementos Molins for Pta19.57bn ($131m).

The deal follows unsuccessful attempts by Ciments Français to establish majority control over Cementos Molins. The stake includes just under 14 per cent held directly by Ciments Français, which is controlled by the Italcementi group, and 25 per cent in the hands of its Spanish cement subsidiary, Financiera y Minera.

Trading in shares of Financiera y Minera and Cementos Molins was suspended.

Ciments Français, dissatisfied with its minority position in the Barcelona company, last year considered selling its stake through a public offering.

In an alternative plan last June, it proposed a "friendly" merger of Cementos Molins with Financiera y Minera, in which it holds 87 per cent. Bnt this scheme was rejected by members of the Molins family, who own 52 per cent of Cementos Molins and have been reluctant to cede control.

Cementos Molins showed a profit of Pta2.2bn last year on sales of Pta35bn. The purchase is being carried out through Asland, which ranks second in the Spanish cement industry behind Valenciana de Cementos, controlled by Cemex, of Mexico.

Miguel del Campo, managing director of Asland, said the Lafarge group saw the purchase as means of raising its market presence in the Catalonia region and as a platform for further investment in Latin America, where Cementos Molins has operations in Mexico, Argentina and Uruguay.

The price of Pta4,500 a share agreed by Lafarge compares with a closing rate of Pta3,450 in Barcelona last Friday.

Mixed outlook for France Telecom

Lionel Jospin's Socialist-led, but business-like, French government yesterday succeeded where its centre-right predecessor failed – by bringing France Telecom safely, and lucratively, to market.

Shares in the former monopoly telecoms operator opened at FFr215, well above the FFr182 issue price for retail investors and yielding an immediate profit for those who opted for an early sale. A record 3.9m individual investors were attracted by the initial public offering, which involved more than 22 per cent of the company's capital and will generate FFr42bn ($7.08bn) for the French state.

But will the company's longer-term performance live up to the expectations of those who have chosen to keep their shares? After all, liberalisation of EU telecoms markets is less than three months awey. This will expose the group to tougher domestic competition.

Analysts point to a number of possible weaknesses in France Telecom's position – in particular, doubts over the extent to which management will be given a free hand by a leftwing government committed to keeping a clear majority of the group's capital.

But they believe, on the whole, that the group has prepared for the onset of full domestic competition as well as could have been expected. They also highlight structural features of the French market which, they sey, should initially enable both France Telecom and its main competitors to prosper.

The main shadow over its prospects is perceived to be political uncertainty. Says one analyst: "At the end of the day, you know the government is the core shareholder and that is a risk."

Leading government figures such as Christian Pierret, industry minister, have sought to play down these concerns. "We have an entrepreneurial vision of France Telecom," he says. "France Telecom is completely free to manage its staff as it wishes."

Sceptics, however, point to the presence of the hard-left Communists in the ruling coalition, as well as the country's chronically high unemployment which makes job cuts in virtually any sector potentially controversial.

Until the government's professed resolve to let the company stand or fall on its own two feet has been thoroughly put to the test, it seems wise to assume that a certain amount of political intervention is inevitable.

Verdicts on France Telecom's management are mixed, although most regard chairman Michel Bon's experience in the cut-throat French retail sector as an important asset end acknowledge the group is less stuffy than some former monopoly operators.

Donbts centre on the degree to which a willingness to embrace and exploit change extends beyond the top tier of management. In the words of one analyst: "I think the senior managers are fully aware of what competition holds in store, but there is a sense that the managers underneeth perhaps have e perception of invincibility – that they think the next 25 years will be the same as the last."

The company's international record also gets mixed reviews, although its Global One alliance with Deutsche Telekom and Sprint, of the US, is generally seen as positive.

Some analysts are sceptical about the planned exchange of shareholdings with Deutsche Telekom, arguing that co-operation with the German group is possible without the need for an equity stake. But the plan is strongly defended by Mr Pierret. "One aim of the cross shareholdings ... is to get people used to working together," he says. "There is more scope for France Telecom and Deutsche Telekom to work together. I think it is easier for them to do so than it would be for BT and MCI."

Michel Bon, chairman France Telecom

Time on-line

Minutes per line per day, 1996

	Local	National	International	Fixed to mobile	Total
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	7.2	1.7	0.2	0.12	9.2

Source: Oftel, Deutsche Telekom, France Telecom, Deutsche Morgan Grenfell estimates

Unalloyed strengths include the gronp's high-quality, fully-digitalised network, the high penetration of its domestic market and good efficiency. It has also retained leedership of France's still underdeveloped mobile telephony market, where competition is already entrenched.

Finally, some analysts argue, the current comparatively low usage of France's fixed telephone network – particularly for long-distance, international and fixed-to-mobile calls – bodes well for the future of all market participants.

The extent to which this potential is reflected in the bottom line may depend on the degree to which further price cuts are necessary to stimulate volumes, however. The effect of tariff cuts was already evident in the company's first-half results, which saw operating income before exceptional items fall from FFr16.9bn to FFr16.6bn.

David Owen

Norsk Hydro up 18% in quarter

By Greg McIvor in Stockholm

Norsk Hydro, the Norwegian industrial conglomerate, overcame lower oil and gas production and continued weakness in its big fertiliser operations to lift third-quarter profits by 18 per cent.

The company, Norway's biggest listed group, increased pre-tax profits from NKr2.26bn to NKr2.67bn ($377m). For the nine months, profits rose from NKr8.4bn to NKr8.53bn, on sales up from NKr63.1bn to NKr71.3bn.

Part of the third-quarter improvement was attributed to a one-off NKr400m write-down in the oil and gas division last year. Excluding this, operating profits were static, in spite of an increase in third-quarter sales from NKr20.2bn to NKr23bn. Norsk Hydro shares eased NKr2 to NKr411.

Operating earnings at the oil and gas unit – the company's most profitable – rose from NKr1.35bn to NKr1.71bn, but were marginally lower than last year after stripping out the write-down.

Leiv Nergaard, chief financial officer, said that oil and gas production this year had been lower than in 1996 because of maintenance shutdowns and delayed start-ups of new fields.

But he stressed production would rise next year and the group was on course to double oil volume from 1995 levels, to 500,000 barrels a day by 2005.

Mr Nergaard was less optimistic about agricultural operations. The unit, Norsk Hydro's biggest, has experienced a sharp decline in profitability, mainly because of lower prices for nitrogen fertilisers.

The problems stemmed from a Chinese moratorium on purchases of urea from the world market linked to high domestic production rates, Mr Nergaard said.

EUROPEAN NEWS DIGEST

Frontline pursues ICB legal action

Frontline, the Bermuda-based tanker operator behind a SKr3.22bn ($422m) hostile bid for ICB Shipping of Sweden, yesterday warned that it would press ahead with legal action to block ICB's proposed $309m friendly merger with Astro Tankers of Greece.

Although the Astro merger was approved by ICB shareholders on Friday, Frontline has instructed lawyers to seek an injunction against the Astro deal while also registering a complaint with Sweden's company registrars.

Frontline, which is quoted in Oslo, claimed that the proposed merger with Astro contravened Swedish company law, which dictates that a deal should not be approved that discriminates unfairly against one class of shareholder.

The Bermuda-based company has acquired 51.4 per cent of ICB's share capital and more than 30 per cent of its voting rights. ICB, however, said it had won a clear mandate from investors holding the bulk of its voting rights to merge with Astro Tankers, owned by the Angelicoussis shipping family.

The increasingly bitter battle to form one of the world's largest independent tanker operators is expected to continue following the decision by Frontline not to sell any of its ICB shares. Instead, the company has drawn up plans to form a new subsidiary specifically to hold the stake. Frontline said yesterday that by using equity accounting, it could realise $35m a year from the holding.

Tim Burt, Oslo

■ FLOOR COVERINGS

Tarkett, Sommer agree merger

Tarkett, of Germany, and France's Sommer Allibert yesterday finalised the merger agreement which will create the world's largest floor covering producer. Tarkett said it would call a meeting of shareholders next month to approve the acquisition of Sommer for DM705m ($401m), the assumption of DM220m in debt, and a DM223m bond issue to help finance the deal.

Meanwhile, Sommer will launch a public tender offer for 20.1m Tarkett shares at DM82.75 in cash and warrants. Yesterday's development represents a victory for the two groups in their battle against Armstrong World Industries, of the US, which tried to block the deal through a counter offer for Sommer subsidiary Domco, and through the courts.

The merger will create a business with sales of about DM2.6bn a year.

Mark Mulligan

■ DEUTSCHE TELEKOM

Venture capital fund established

Deutsche Telekom, Europe's largest telecommunications group, has given a further push to Germany's underdeveloped venture capital industry by setting up its own DM100m ($59m) telecoms fund.

T-Venture will be a wholly-owned subsidiary of Deutsche Telekom specialising in investments in companies at the early stages of development.

Hagen Hultzsch, Deutsche Telekom board member responsible for technical services, said the initiative would give the development of innovative telecommunications and information businesses "an important additional impetus".

The fund will take direct stakes and also invest in other venture funds.

Ralph Atkins, Bonn

Aceralia buys Aristrain in equity swap

By Tom Burns in Madrid

Aceralia, the state-controlled Spanish steel group backed by Arbed of Luxembourg, yesterday agreed to buy Aristrain, Spain's biggest producer of "long" products for the construction industry, in an equity swap worth Pta40bn ($268.4m).

The deal, coming just ahead of Aceralia's full privatisation but subject to Brussels approval, will turn the Arbed-Aceralia alliance into a strong force in the European market for beams.

The Luxembourg company is already a leading producer in Europe; Aceralia will control about 90 per cent of the domestic market through its purchase of Aristrain.

Arbed, which is advised in Spain by ING Barings, has separately negotiated a five-year industrial plan with Aristrain.

As part of the deal, Aristrain's top executives are expected to hold senior positions at Aceralia.

Aristrain, which fought off takeover bids by British Steel between 1989 and 1991, said its acquisition by Aceralia would take the form of an "industrial integration".

Analysts said Aceralia's incorporation of Aristrain, in the wake of its strategic alliance with Arbed, would lift the profile of the state's forthcoming public sale of the rest of its shares.

Sepi, the government holding company, sold 35 per cent of Aceralia – then known as CSI – to Arbed in an all-share transaction worth Pta129.2bn last July. The deal included the acquisition by the Spanish group of stakes in Arbed and three of its subsidiaries.

It will now sell 10.8 per cent to Aristrain in exchange for outright ownership of the long products manufacturer.

José Maria Aristrain, the producer's owner and chairman, will independently acquire a further 0.4 per cent for Pta1.5bn.

The sale of a further 5 per cent to Gonvarri, a privately-owned domestic producer of flat products and a leading supplier to Spain's car industry, has been scaled back to 1 per cent.

The sale of the remaining 52.8 per cent of Aceralia, worth about Pta195bn, will be via a global offering provisionally scheduled for late November or early December.

It will be the last big steel industry privatisation in western Europe.

Promodès shrugs off Casino family hostility

By Andrew Jack in Paris

Promodès, the French retailer which has launched a hostile takeover for its rival Casino, yesterday remained upbeat in spite of growing indications that the majority of Casino's family shareholders oppose the bid.

The reaction came after a poll among the 260 descendants of Casino's founding Guichard family on Saturday suggested that 60 per cent would hold on to their shares. None came out in favour of selling to Promodès.

Some 13 per cent of the family said they would cede some shares to Rallye, the retailer which holds a 33 per cent stake in the company and has launched a "white knight" bid for the rest. The remaining 30 per cent had not made a decision.

The Guichard family controls 16 per cent of the votes of Casino and has a further 1m warrants which could be converted into shares to tighten their grip further ahead of the closure of the Promodès offer on November 7.

Coupled with the votes of Rallye, which rise to 43 per cent at the end of this month, it is unlikely that Promodès could achieve its objective of obtaining at least 50 per cent control.

However, Antoine Guichard, former chairman of Casino's supervisory body and spokesman for the family, admitted that Saturday's vote was not binding.

Nor would he say whether he would put into operation the company created by four family members to exercise pre-emption rights and buy the shares of anyone who planned to sell to Promodès.

"We'll see where we are at that time," he said, arguing that the purchases would probably be "symbolic" in quantity.

Promodès said: "Each time the family shareholders meet, more and more go in our direction. We are extremely satisfied with the decision this weekend. The game remains open."

Mr Guichard described the tone of the family meeting – held in Casino's historic headquarters in the central French city of St-Etienne – as "good". He said Hubert Kemlin, another member who opposed the Promodès bid, had been appointed to represent him if he could not attend meetings.

Separately yesterday, 20 Casino executives wrote to Paul-Louis Halley, chairman of Promodès, to express opposition to the company they called "Casimodès" if the merger of the two groups went ahead.

Off line: Djurgarden goaltender Tommy Söderström follows Stockholm bourse Tomas Oneborg

Ice hockey flotation sunk

Plans to launch Europe's first publicly-quoted ice hockey team were scrapped yesterday, when Djurgarden of Sweden abandoned a proposed stock exchange listing, writes Greg McIvor in Stockholm.

A SKr45.7m ($5.99m) share offering was cancelled after Sweden's ice hockey authority ruled the move was incompatible with the country's strict rules that sports clubs may not operate as joint stock companies.

Djurgarden said 2,000 investors who had subscribed for shares would have their money refunded with interest. The shares had been due to start trading by Thursday.

Sweden's national athletics association had threatened to ban Djurgarden from the elite hockey league if it turned itself into a listed company.

Peter Gudmundsoo, who was to have become Djurgarden's managing director after the flotation, said the inability to attract equity capital would make it more difficult to fund rising salary demands from its players and to compete with leading European clubs. He said Djurgarden might consider suing the regulatory authorities for compensation.

EUROPEAN NEWS DIGEST

VW sets up traffic systems subsidiary

Volkswagen, the German carmaker, will today launch a new subsidiary to market traffic information and management systems as part of its strategy to enter the emerging business of "telematics". Gedas Telematics, based in Berlin, will offer hardware and support services designed to beat traffic jams and optimise route planning to private road-users, commercial haulage firms and public transport operators. The company is jointly owned by VW Gedas, the car company's software and services unit, and IAV, an engineering development group in which VW has a 50 per cent stake. Rainer Paulsen, managing director, said the company would initially concentrate on providing systems and services to the VW group, though it eventually hoped to sell to other manufacturers.

Frederick Stüdemann, Berlin

■ GOLD

Restructuring hits Gengold mine

Gengold, the South African gold producer which plans to merge with Gold Fields of South Africa, yesterday announced a fall in quarterly profits at its flagship mine. Net income at Beatrix mine dropped from R43m in the previous quarter to R25.8m ($5.5m). Tom Dale, managing director, said the decline followed "significant improvements in productivity" which had placed an "unexpected strain on infrastructure".

Mr Dale said the new group would focus on productivity and safety. These were the principal deterrents for international mining groups considering acquisitions in South Africa, he said. The merger with Gold Fields, announced on October 10, had taken precedence over negotiations with two international groups. Analysts suggested Placer Dome, the Canadian mining group, had been in talks with Gencor, Gengold's parent, prior to the deal with Gold Fields.

Mark Ashurst, Johannesburg

■ ISRAEL

Claridge aims for 37% Koor stake

Claridge Israel, the investment company controlled by the Charles Bronfman family of Canada, plans to raise its stake in Koor Industries, Israel's biggest holding company, to about 37 per cent by the end of this year. Claridge made the announcement yesterday after it finalised the acquisition of 10 per cent of Koor from Shamrock Holdings of the US for $187m. Last July, it bought 10 per cent for the same price from Shamrock. Jonathan Kolber, president of Claridge Israel, said the group now held a controlling 25.5 per cent stake.

Avi Machlis, Tel Aviv

Bic completes Sheaffer buy

By Andrew Jack in Paris

Bic, the French lighters, pens and razors group, said yesterday it had completed the acquisition of Sheaffer, the US fountain pen manufacturer, for about $33m.

The purchase followed an out-of-court settlement between Bic and Gefinor, the Geneva-based investment bank which owns Sheaffer, and which had attempted to sell the business to two of its executives.

The deal is believed to have involved an out-of-court payment to Owan Jones, Sheaffer chief executive, and Shane Dolohanty, chief financial officer, who have agreed to abandon their right of first refusal on the business.

Bic announced at the end of July it had agreed to buy the business, but was caught by surprise by a statement from Gefinor in August that it had sold Sheaffer to the existing management, triggering a legal battle in the US courts.

The French group argued that Sheaffer's executives had not "validly exercised" their right of refusal and obtained a ruling in the appeals division of New York State Supreme Court freezing the sale until the case could be examined in January.

It also increased its original offer by $2m.

Bic said it had bought Sheaffer Group from Sheaffer International (Guernsey), the direct parent of the pen manufacturer.

It said the deal included the company's 75 per cent stake in a joint venture in China, as it had originally planned.

Robert Macdonald, Bic finance director, said: "It was in no one's interests to get involved in a long-term court battle."

He ruled out the possibility of Sheaffer returning to profit this year, but said Bic would apply manufacturing synergies, including providing Sheaffer with ink and ball-point fittings from its own factories.

Mr Macdonald would not comment on whether Mr Jones and Mr Dolohanty would remain with Sheaffer.

Adtranz warns of losses

By Frederick Stüdemann in Berlin

Adtranz, the rail transport joint venture between ABB and Daimler-Benz, yesterday warned it expected "significant losses" for 1997 following a restructuring charge of DM283m ($160m) in the fourth quarter.

Tha company also said that 3,600 jobs would be cut in Germany and Italy.

The moves, which are linked to cost cuts in the face of increasing price pressure and overcapacity, had been expected after Adtranz shifted members of its UK restructuring team to Germany to implement cost-cutting measuraa originally introduced in the UK.

In the early 1990s, the UK workforce was cut from 8,200 to 3,500.

Adtranz, which was established in January 1986 and has its headquarters in Berlin, said the restructuring charge included higher than expected costs from old or existing contracts.

It added that it had decided to increase the outsourcing of non-core activities and step up global product development spending.

Adtranz, like other rail transport companies, has increasingly focused on Asia as a source of potential growth, not only as a supplier of rolling stock but also as a part-operator of mass transport systems.

Last year, it had pre-tax profits of DM40m on sales of DM6.1bn. It claims a global market share of 17 per cent in rail equipment. In the UK, Adtranz has won half the rolling stock orders placed since rail privatisation.

Siemens, of Germany, and GEC-Alsthom, the Anglo-French group, are the other two big European rail systems manufacturers.

Move to boost securitisation in Japan

By Gillian Tett in Tokyo

A Japanese company is for the first time using car leases to issue bonds to investors. Japan Leasing Auto, an affiliate of Japan Leasing, plans shortly to place Y10bn ($83m) worth of bonds which are backed by the income stream from car rentals.

The move highlights the rising interest in Japan in "securitisation" – the practice of restructuring assets into securities. It comes as the Japanese government is preparing to unveil measures to boost the securitisation market, which has been strikingly underdeveloped.

These measures, likely to emerge this week, are expected to include efforts to make it easier for companies to establish special purpose companies which can issue these bonds.

The impetus behind the latest wave of interest in securitisation in Japan has been the huge levels of property-related bad loans that are held by banks.

Investment bankers argue that if a proper securitisation market were developed in Japan, then banks would find it much easier to dispose of these bad loans.

However, aside from these property-related bad loans, there is also increasing interest in the market for other forms of non-property related securitised assets.

Since the property market remains plagued by low volumes and falling prices, some analysts suspect non-property securitisation areas – such as cars – will grow fastest in the short term.

In the US, where securitisation has been developed as a technique for two decades, car leasing is a popular tool for asset-backed securities.

However, Japanese companies had been deterred from following suit, partly because they were uncertain about the level of investor interest. Instead, the limited securitisation that has occurred has largely involved items like credit cards.

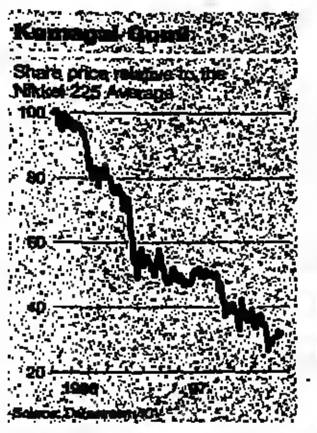
However, the securities affiliate of Long Term Credit Bank, a Japanese bank, said yesterday it had succeeded in undertaking the first auto-leasing securitisation for Japan Leasing Auto, Japan's second largest leasing group.

LTCB refused to reveal market details of the deal but said the bonds had been sold to domestic investors and had been twice subscribed. "There was a strong level of interest," the group said.

LTCB admitted it was unsure how many other car leasing deals would now emerge. "There are not many other car leasing companies with this many assets," one official added. The leasing market accounts for 3 per cent of all vehicles in Japan.

Kumagai warns of Y200.5bn deficit

By Bethan Hutton in Tokyo



Kumagai Gumi, one of Japan's leading construction companies, said yesterday it would make a loss of Y200.5bn ($1.67bn) for the financial year to March 1998.

Previous forecasts were for post-tax profits of Y1bn.

The reversal is mainly due to an extraordinary loss of Y239bn from writing off overseas developments and domestic bad loans. The company is liquidating 16 overseas projects, mainly in the US.

The write-offs are key to a medium-term management reform programme announced yesterday.

Kumagai said it also planned to reduce its interest burden by cutting debt from Y610.8bn to Y595bn by March 2002, and reducing loan payment guarantees from Y430.6bn to Y170bn.

In addition, Taichiro Kumagai, president, will retire at the beginning of November, to be replaced by Yoshio Matsumoto, managing director.

Kumagai said it expected pre-tax profits of Y30bn for the 1997-98 financial year, on sales of Y1,080bn. It planned to skip the Y3 dividend for the year, but expected to return to profit and resume the dividend in the next financial year.

Steven Weller, construction industry analyst at Jardine Fleming Securities in Tokyo, said Kumagai's financial difficulties were well known, but the decision to make such a large write-off this year was unexpected.

"They have accelerated what they said they were going to do over a much longer period, and we have to give them credit for thet." Mr Weller said, bnt added that it was not clear how much bad debt would be left after the write-off.

Kumagai's main banks, Sumitomo Bank and Long Term Credit Bank, yesterday pledged continued support.

Kumagai's profit warning follows a series of bankruptcies among smaller Japanese construction companies this year. All construction companies are facing difficulties dating back to the bubble period of the late 1980s.

Japanese retailers show mixed results

By Bethan Hutton

First-half results from Japanese retailers reflect the impact of April's consumption tax increase on consumer spending, but some are weathering the storm better than others.

Daimaru, an upmarket national department store chain, bucked the trend with sales up 2.9 per cent to Y255.3bn ($2.12bn) over the six months to end of August, attributable mainly to the reopening of its Kobe store following the 1995 earthquake.

After-tax profits were up 21 per cent to Y1.1bn, with pre-tax profits ahead 8.4 per cent to Y1.7bn. However, Daimaru cut its forecasts for the full year, saying reduced consumer spending was likely to continue. It expects sales of Y516bn, rather than Y530bn, and net profits of Y8bn rather than Y3.5bn.

Sogo, a more downmarket department store group, suffered a pre-tax loss of Y295m for the half year, and an after-tax loss of Y450m, against losses of Y270m and Y297m respectively for the same period last year.

Sales edged up 0.8 per cent to Y84bn. The company said it expected to return to profit for the full financial year. It predicted post-tax profits of Y100m, although the dividend would not be resumed.

Unconsolidated pre-tax profits at Takashimaya, an Osaka-based department store operator, fell 8.9 per cent to Y7.4bn, with net profits down 26.8 per cent to Y3.76bn. Sales were higher, up 5.4 per cent to Y539.2bn, helped by the Takashimaya Times Square development in Tokyo which opened in 1996.

Matsuya, a medium-sized department store operator based in Tokyo, reported a 4.4 per cent drop in pre-tax profits to Y405m, but post-tax profits firmed 1 per cent to Y193m. Sales fell 2.1 per cent to Y44.7bn.

Sales figures for Tokyo department stores, released on Friday, showed a 4.2 per cent fall from September 1996, the sixth successive month showing a year-on-year decline.

ASIA-PACIFIC NEWS DIGEST

Foster's to spend A$78m in Vietnam

Foster's, the Australian brewer, has completed its Asian strategy with a A$78m (US$57m) investment in two Vietnamese breweries. It already has operations in China and India. Ted Kunkel, chief executive, said at the company's annual meeting yesterday that the group had earmarked about A$220m for investment in the region.

Yesterday's deal gives Foster's two breweries with capacity for 90m litres. The breweries had been established by Brasserie et Glacieres of France which bought out its Vietnamese partners earlier this year. Foster's said beer consumption in Vietnam has grown more than 21 per cent a year since 1991. It is building a A$22m brewery in Bombay, India. Recently the group said its loss-making Chinese operations should break even by 2000.

John Ralph, chairman, told shareholders yesterday that first-quarter trading was in line with budget and the full-year operating profit should see an increase. However he warned that "it will be quite a challenging target to get the net profit to what it was last year" because Foster's has used up its tax losses accumulated over several years.

Elizabeth Robinson, Sydney

■ OIL

Weak peso hits Shell Philippines

Shell Philippines, an offshoot of the Anglo-Dutch oil group, lost about 500m pesos ($14.8m) in the first three quarters as the weaker peso took its toll. The group said it had lost 1.7bn pesos in the third quarter alone, largely as a result of the peso's collapse. The losses wiped out the net income of 621m pesos for the first quarter and 631m for the second quarter.

The local oil sector, dependent on high levels of imports and restricted from setting prices freely, has been among the hardest hit by the south-east Asian currency crisis. "Oil companies are working in a difficult environment in which they have not been able to recover losses from the weaker peso," said Francis Sy-Siong, analyst at BZW in Manila.

● Philippine Airlines, the national flag carrier, yesterday backed down from making a 35 per cent increase in domestic fares and freight charges less than a week after announcing the rises. The climbdown follows pressure from the Civil Aeronautics Board, the government regulator, which argued air fares were not liberalised as PAL claimed.

Justin Marozzi, Manila

Corporate India shares buy-back enthusiasm

By Krishna Guha in Bombay

India is preparing for the first share buy-backs in its corporate history as a new law approaches the statute book.

Last week, Reliance Industries, the country's biggest petro chemical company, won shareholder approval for a buy-back involving up to 5 per cent of its voting stock. It joins a string of companies that have sanctioned buy-backs, including Bajaj Auto, Apollo Tyres and SL Packaging.

They are preparing for the passage of an amendment to India's Companies Act which could be voted through parliament as early as next month. The amendment includes a proposal to legalise share buy-backs.

Analysts said the move was further evidence that Indian companies were adopting the concept of shareholder value with the encouragement of foreign investors.

"By reducing their capital base they can improve earnings per share," said Jyotivardhan Jaipurla, vice-chairman of DSP Merrill Lynch.

Speaking at Reliance Industries' extraordinary meeting last week, Dirubhi Anbani, chairman, said his company's move could "result in substantial value enhancement for all shareholders".

The buy-back proposal is part of a broader programme which includes an employee stock option scheme and a one-for-one bonus share issue confirmed at the meeting.

Reliance may seem an odd company to begin a share buy-back. It is growing fast and has invested large sums in plants at Hazira and Jamnagar. But it generates about $500m cash flow a year and investment spending is expected to slow once the current phase of expansion is completed.

A high profile buy-back programme would signal that it intended to narrow the discount at which its shares trade as a commodity producer.

If Reliance pushes ahead with its buy-back other companies could follow.

Bnt analysts are concerned that if they become widespread some companies may abuse them.

However, others said buy-backs could not be used for short-term purposes since the draft legislation bans a company which buys back its shares from issuing more equity for 12 months.

International competition hits Bajaj

By Krishna Guha

In need of a lift: Bajaj is losing sales as economic slowdown hits mass-market producers

Bajaj Anto, India's biggest motor cycle and three-wheeler manufacturer, yesterday unveiled a 12 per cent fall in pre-tax profits to R3bn ($82.9m) as weak demand and stiff competition eroded sales.

In the six months to September, Bajaj sold 625,140 vehicles, against 722,467 last time. Sales fell 6 per cent to R15.1bn. Exports also fell, down 24 per cent at R661m.

The fall in volumes was widely expected. "It is a combination of weak demand and Bajaj losing out on the product front," said Mr K.N. Sreenivasan, Auto analyst at Jardine Fleming.

Bajaj has faced increasingly severe competition in India from foreign joint ventures such as Hero Honda, LML Piaggio (makers of Vespa scooters) and Tvs Suzuki.

Rahul Bajaj, chairman, has conducted a high-profile public campaign against "unfair competition", drawing widespread media attention to the fight.

Bajaj, while still dominant, saw its share of the motor cycle market fall 3 percentage points to 27 per cent, according to Jardine Fleming. By contrast, sales at Hero Honda and LML Piaggio are rising at 30 per cent a year.

Bajaj has suffered in part because its mass-market customers have borne the brunt of India's economic slowdown.

The wealthy elite, targeted by its foreign competitors, has been relatively unscathed and benefited from tax cuts this year.

But analysts said Bajaj's fundamental problem was outdated technology.

"It is a laggard on the technology front," said Mr Sreenivasan. "It does not have the products to compete."

The company's difficulties could increase as India adopts tighter pollution standards.

However, some analysts believe that Bajaj has woken up to the challenge.

It plans to launch 10 models over the next two years and is spending heavily on research and development. It has protected margins – down only 1.4 per cent – during the economic slowdown due to tight cost controls.

Meanwhile, the company has pushed ahead with expansion at its Akurdi and Waluj plants, which will give it a capacity of 2m vehicles by the end of 1998. This is far more than any competitor in India.

"The new plants will give Bajaj the flexibility to introduce new models," said Mr V.S. Hariharan, auto analyst at Peregrine Securities. Mr Hariharan said the new facilities "met the highest Japanese standards".

Bajaj, as the biggest producer, stands to gain most if India's economy enters a cyclical upswing in the second half. Analysts said it could benefit from public sector wage hikes and strong rural incomes following a good monsoon.

Acquisition strengthens UK insurer's dominant position

GA buys Canadian General

By Christopher Brown-Humes in London and Scott Morrison in Vancouver

General Accident is strengthening its position as market leader in Canada by acquiring Canadian General, the country's 11th largest general insurer, for C$600m ($435m).

The UK composite insurer will assume C$138m of debt, giving an enterprise value of C$738m to the deal.

It is the biggest overseas acquisition by a UK general insurer since Commercial Union's purchase of Victoire in 1994. It comes as consolidation in international insurance markets is increasing. It will lift GA's share of the fragmented Canadian market to 9.9 per cent from 6.8 per cent.

Bob Scott: widens position in Canadian market Trevor Humphries

Analysts said the price was expensive at 2.6 times book value. But it was a good strategic move because of cost-savings, economies of scale, improved information technology and management shake-up that would be achieved.

"They are buying a quality bueiness at a premium price," said Trevor May, analyst at Salomons.

Bob Scott, GA chief executive, said: "This widens our position in the Canadian market, gives us a top class IT system and adds a number of speciality lines to our business." The new lines include affinity groups, recreational vehicles, and mobile homes.

Analysts said GA's Canadian business had been lacklustre, but it would benefit from an injection of Canadian General management. Three of the top five executives in the merged GA Canada, including the chief executive, will be supplied by Canadian General.

GA is also pointing to potential cost-savings of C$75m a year by 2000 – arising from cutting 600 of the combined 2,300 staff, moving GA Canada's head office out of central Toronto, and IT benefits. GA will incur a one-off integration cost of C$45m next year.

The vendor is Kohlberg Kravis Roberts, which acquired Canadian General in 1995 for less than half the amount GA is paying. The operation has grown rapidly following a series of acquisitions.

ABN Amro Hoare Govett advised GA oo the deal.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Creston Land	Yr to June 30	5.95	(8.06)	1.66♥	(1.5♥)	1.8	(2)	-	-	-	-	-
Formscan Φ	Yr to July 31	4.99	(5.51)	1.28♠	(1.2)	9.36	(9.25)	1.25	Jan 6	2.25	2.25	2.25
Harvey Nash	6 mths to July 31⁑	23.8	(16.4)	2.11♠	(1.79)	5.26	(4.43)	1.55	Nov 28	-	-	-
Minmet ‡	6 mths to June 30	-	(-)	0.109L	(0.033L)	-	(-)	-	-	-	-	-
Newcastle United	Yr to July 31	41.1	(42.2)	8.3	(23.6L♥)	6.9†	(22.6L)	0.5	Dec 15	-	0.5	-
Owen & Robinson	28 wks to Aug 16	11.6	(12)	0.602L	(2.52L♠)	0.44L†	(3.37L)	-	-	-	-	-
Seton Healthcare	6 mths to Aug 31	53.3	(49.3)	6.67♠	(7.89)	9†	(10.9)	3	Jan 30	2.7	-	8.8
Upton & Southern	Yr to July 26	11.8	(8.95)	0.423	(0.307♥)	0.2	(0.14)	-	-	-	-	-
Usborne	Yr to June 30	153.5	(158.6)	0.016♠	(1.12♥)	0.15	(2.59)	1	Nov 25	1	1	1

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aberdeen European	6 mths to Aug 31	122.46	(114.91)	0.236	(0.507)	0.69	(1.48)	-	-	-	-	1.1
K'wort Endowment	6 mths to Sept 30	161.5	(146.9)	0.459L	(0.362L)	1.53L	(1.21L)	-	-	-	-	-
K'wort 2nd 2006	Yr to Sept 30 ★	142.3	(127.3)	0.849L	(0.696L)	4.25L	(3.48L)	-	-	-	-	-
K'wort 2nd 2009	9 mths to Sept 3	100.1	(95.6♦)	0.305	(-)	1.53	(-)	-	-	-	-	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. ΦAim stock. ⁑Pro forma. ‡Irish currency. †On increased capital. ★Comparatives restated. ♦Value in January.

Hambros picks Schroders to help in review

By George Graham, Banking Editor

Hambros' share price climbed sharply yesterday after the UK merchant bank confirmed it had appointed Schroders "to assist in a review of the best ways of improving performance and returns to shareholders".

Speculation that the review could result in a break-up or the sale of key assets helped the shares to rise 12p to a 270½p ($4.35) high for the year, but still below the group's published net asset value of 291p.

Hambro had been pressed by the Stock Exchange after a rise in its share price last week. The group said Schroders would: " assist in a review of the best ways of improving performance and returns to shareholders".

Pressure on the bank from institutional investors after years of underperformance has increased since the debacle over Lanica Trust's abortive bid this year for the Co-operative Wholesale Society.

Hambros advised Lanica and ended up having to apologise for its role. Three of its corporate financiers have since left.

The bank has also come under pressure from Regent Pacific, the Hong Kong-based investor which yesterday confirmed that it had increased its stake to more than 4 per cent.

"We are happy they have recognised that they need to do something," Regent said yesterday after Hambros' announcement.

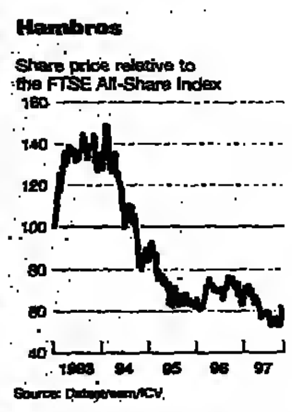
Two candidates for disposal are the 53 per cent stakes that the bank holds in Hambro Countrywide, the estate agent – worth £220m at yesterday's prices – and in Hambro Insurance Services, the specialist insurance broker and loss adjuster, valued at £36m.

Countrywide said yesterday it had not yet appointed its own advisers.

The bank's largest shareholder, Istituto Bancario San Paolo of Italy, denied reports that it planned to bid for control.

LEX COMMENT

Hambros



Hambros' review raises hopes that value might be released by a break-up, a buy-back, or both. But are the parts worth more than the whole? At yesterday's closing prices, Hambros was worth £527m including preference shares. Subtract £220m for its stake in Hambro Countrywide and £36m for its holding in Hambro Insurance Services, and that leaves £371m. The investment portfolio, worth about £140m in March, could have risen to perhaps £165m by now. That leaves around £200m for the bank – which is quite enough if all it is going to do is continue to make substandard profits, £10m at the operating level last year. But with nearly £300m of net assets and a half-share in a fund management business, more aggressive management ought to be able to extract value. A break-up should also realise better values for Hambro Countrywide, which is benefiting from booyant housing and life assurance markets, and for the insurance business, for which a bid of £84m – some £15m more than the current value – has already been rebuffed. Hambros, which has ample capital and no obviously attractive use for it, could plough the proceeds and more into a share buy-back.

But it is debatable whether shareholders will push for such radical action. Regent Pacific has yet to carry out its threat to call an extraordinary meeting. Others seem likely to err on the side of patience. Guardian Royal Exchange, with nearly 10 per cent, looks a friendly face on the register. Lord Hambro is its chairman.

Energis may be valued at £1.4bn

By Alan Cane

Energis, the telecommunications arm of the National Grid, is likely to be valued at between £1.26bn and £1.36bn ($2bn to $2.2bn) when it comes to the main market next month, according to Dresdner Kleinwort Bensoo, global co-ordinator for the float.

James Dodd, chief telecoms analyst, used discounted cash flow techniques to calculate the pre-initial public offering enterprise valoe, with an average of £1.32bn.

His valuation is about 30 per cent higher than previous estimates of the company's valne, the largest of the UK's new operators.

Mr Dodd said that comparative valuation with US companies such as WorldCom – which is currently fighting a takeover battle for MCI – Qwest and some of the local fibre optic network operators would support a valne closer to $2bn on the basis of a twenty times multiple of last reported revennes.

National Power to invest $260m in Turkish growth

By Andrew Davis

National Power is to spend $260m on a fivefold expansion of its electricity generating operations in Turkey.

The company is part of a consortium that has won exclusive rights to negotiate for the 20-year operation of three existing coal-fired plants with total capacity of 1,680MW, and the construction of a 700MW gas-fired station. National Power, which already has a one-third stake in a 480MW gas fired station being built at Marmara, will operate and maintain all the plants.

The company said capacity was expected almost to double to 30,000MW by 2000.

It will invest $200m for 42.5 per cent of the three coal-fired stations – at Yenikoy, Kemerkoy and Yatagan, along with associated lignite mines. Local companies Bayindir Holding and Mimag will own 42.5 per cent and 5 per cent respectively. PacifiCorp of the US will hold the remaining 10 per cent and operate opencast mines near Yenikoy and Kemerkoy.

National Power will also spend $60m to take 45 per cent of the gas-fired station, dne for completion near Ankara by early 1999. Bayindir will have a similar stake, and Mimag 10 per ceot.

Gas will be supplied by Botas, the state supplier, and the outpot from all the plants will be sold on a 20-year contract with TEAS, the state power utility.

In all cases, the plants will transfer to the government after the 20-year contracts finish. So-called build-operate-transfer deals in Turkey bave until receotly been beld up by legal objections. But National Power yesterday said it was confident the problems bad been overcome.

Beryl Field group buys N Sea assets

By Emiko Terazono

The Beryl Field partners, the oil and gas exploration consortinm comprising Mobil, Enterprise Oil, Amerada Hess and OMV, bave acquired assets in the North Sea from Conoco for a sum believed to be about $200m.

The deal increases the consortium's North Sea interests, allowing it to achieve greater economies of scale. With yesterday's agreement, the consortium will obtain interests in Buckland, Sorby and Maclure, three developments close to the Beryl field.

Enterprise said its share was $92.1m, while OMV's share was $20.2m.

Production from the developments is expected at about the turn of the century at a rate of 9,500 barrels of oil equivalent per day.

Newcastle United wage bill spirals

By Patrick Harverson

The rising cost of top talent in soccer was underlined yesterday when Newcastle United revealed that buying players and hiring a new manager contributed to a 50 per cent increase in its wage bill last season.

Reporting a 37 per ceot increase in pre-transfer profits to £8.1m ($13.1m) for the year to July 31, Newcastle said its wage and salary costs jumped to £15.4m last season. It said £4.1m of the increase related to staff on the soccer side of the club.

Newcastle is not the only club to suffer from a rapidiy rising wage bill. In recent weeks rivals such as Manchester United and Chelsea have reported similar big increases in player costs.

Some club chairmen believe controlling wage and transfer inflation is one of the biggest challenges facing soccer and yesterday Freddie Fletcber, Newcastle's chief executive, said he expected wages to rise by about 25 per cent annually.

The jump in wages at Newcastle last year reflected the purchase of players such as Alan Shearer (at the end of the previous financial year) and the hiring of Kenny Dalglish as manager.

The fact tbat the club earned more from player sales than purcbases last year meant tbe company returned to the black at the pre-tax level with profits of £8.3m (£23.6m loss).

Turnover from continuing operations climbed 42 per cent to £41.1m, aided by a strong run in the UEFA Cup.

Mr Fletcher confirmed tbat Newcastle had been holding talks with several broadcasters about establishing a television channel.

A maiden dividend of 0.5p is recommended.

BUSINESS AND THE LAW

Rights of EU doctors asserted

EUROPEAN COURT

A European Union member state must recognise the rights of doctors established in its territory before January 1 1995 to practise general medicine under its social security scheme, even if those doctors have no specific training in general medicine, the European Court of Justice ruled last week.

Following the publication of a vacancy notice, 11 Italian doctors applied to be included on a list of persons seeking posts as general medical practitioners under contract to the Palermo Local Health Unit.

In spite of their inclusion on the list, the doctors petitioned tha Italian Ministry of Health on the grounds that other doctors, who did not have diplomas in general medical practice, had also been included.

The ministry sought the Council of State's opinion. The Council referred two questions to the European Court.

A preliminary issue arose as to whether the Council of State was a "court or tribunal" competent to request the assistance of the court for a petition of this kind.

The ECJ said that it was, emphasising the permanent, impartial, adversarial and independent nature of the body, and the fact that its reasoned opinion was an integral part in the resolution of the dispute.

On the substantive issue, the court found that as of January 1 1995, a 1993 European directive made the exercise of general medical practice conditional on the possession of formel evidence of qualification.

This cut-off date was subject to rights acquired in other member states. Doctors practising general medicine under social security schemes who were established in practice before January 1 1995 had an acquired right to practise as GPs under the national *social security* scheme of another member state even if they had not completed specific training in general medical practice.

Italian law implementing these provisions recognised the right of all doctors authorised to practise before January 1 1995 to be general practitioners in the national health service. The petitioners challenged this on the grounds that it was too broad in scope.

The Council of State asked the court first whether the directive required that, in order to practise under the social security scheme of a member state without a general medical practitioner's diploma, a doctor had to have entered into a service relationship with that state's national health service before January 1 1995.

Second, if this was correct, it asked whether member states could extend the right to practise to those doctors who had not established such a relationship before that date.

The court noted that the directive granted member states a discretion in determining the right to practise acquired by general medical practitioners in other member states.

That was subject to one minimum right. Each member state had to recognise the acquired rights of those doctors that did not hold a general practitioner's diploma, but who, before January 1 1995, were recognised in that member state as having formal qualification issued to them in another member state and who, before that date, had *obtained the right to practise as* GPs under the national social security scheme.

The court said that in order for the acquired right to be recognised, it was not necessary that the doctor should have entered into a service relationship by December 31 1994.

It was sufficient that the doctor had acquired a right, albeit theoretical, to engage in general practice under the national social security scheme by that date.

Apart from that minimum requirement, member states could extend the acquired rights to other situations as they saw fit.

C-69/96 and C-79/96, Garofalo and others v Ministero della Sanità, ECJ 5CH, October 16 1997.

BRICK COURT CHAMBERS, BRUSSELS

Sun, surf and lawyers

California's halcyon days have resumed, says Richard Marsland

In the popular imagination, California is the land of sun, sea, surf – and lawyers. Walk down an average street and every 200th person you meet will be a member of the state Bar. About two-thirds of them are in private practice.

"It's the most heavily lawyered place on earth," moans a US east coast lawyer based in California. "There are simply too many lawyers."

But in spite of this chronic oversupply, optimism is stirring again among California's law firms. Practices in all the main centres – San Francisco, Los Angeles and San Diego – are expanding for the first time this decade.

According to lawyers, the legal industry now emerging from California's long and painful recession is wiser and more realistic than the one that went into it. They hope growth will prove to be broadly based and sustainable – attributes sadly lacking when the 1980s bubble burst, throwing thousands of Californian lawyers out of work.

Tim Bruinsma, a partner with the Los Angeles office of Houston's Fulbright & Jaworski, says: "In the past five years, a lot of the big firms have cut back substantially. The early 1990s were pretty bleak, and we are not used to that in California, so it felt even more dramatic than it was."

Many Californian lawyers now see the economic and legal shakeout as positive, even as necessary. Tom Stromberg, a partner in the LA office of San Francisco's Heller Ehrman White & McAuliffe, says the downturn in aerospace and real estate work in LA as the predominant sources of business for law firms will be to their benefit in the longer term.

When the aerospace industry collapsed, many people thought the engineers would leave California. But they stayed, either to set up on their own or to help other people build up businesses.

"Having that base of engineering expertise is a great boon both to the economy, and to the law firms servicing it," he says.

California's economic renewal along more entrepreneurial lines is beginning to bear fruit. Confidence and jobs were slow to return, but California's unemployment rate has fallen to its lowest level in seven years.

New or revived industries – bio-technology in San Diego, light manufacturing and entertainment in LA, an internet-related boom in Silicon Valley – have replaced the monolithic but fading defence and aerospace industries as engines of growth.

In June, the annual economic study from University of California Los Angeles (UCLA) was bullish, forecasting that California would create a further 1.2m jobs during the next three years.

The most obvious impact of the recession was to force retrenchment on California's law firms. But it also helped them by blunting the challenge from the east coast. Many New York-based practices that had set up west coast offices found their commitment severely tested – and several withdrew.

The impact of the east coast giants in California remains surprisingly slight. Local lawyers in LA say that, of the big-name east coast firms, only Skadden Arps "appears on the radar screen".

In the San Francisco Bay Area, Shearman & Sterling has made most waves, with mergers and acquisitions work for clients such as Silicon Graphics and Apple Computer.

The cuts of recent years have left notable gaps in some leading firms' coverage. Debevoise & Plimpton has no California presence since pulling out of LA last year, and Baker & McKenzie has no LA office, although it has offices in San Francisco and San Diego.

West coast lawyers claim the problem for many east coast firms is that their west coast offices do not become fully engaged in the local market.

One preconception behind the rush to set up Californian offices in the late 1980s was that it would be a good jumping-off point for work in the emerging Asian markets.

Several west coast firms have substantial Asian practices, notably, LA's Graham & James, O'Melveny & Myers, Gibson Dunn & Crutcher, Paul Hastings Janofsky & Walker and Latham & Watkins, with San Francisco's Morrison & Foerster, Pillsbury Madison & Sutro, McCutchen Doyle Brown & Enersen, Heller Ehrman White & McAuliffe, Brobeck Phleger & Harrison and Orrick Herrington & Sutcliffe.

In San Diego, firms such as Luce Forward Hamilton & Scripps, Gray Cary Ware & Freidenrich and Lorenz Alhadeff Cannon & Rose are also active in Asia. "LA acts as a window on to Japan, and San Francisco as a window on to China and *Hong Kong*," says a senior lawyer in San Francisco.

But opinion is divided on whether being on the west coast brings any benefit over New York as a base for Asian work, given advances in telecommunications and the increasing importance of an actual presence in Asia. The San Francisco lawyer adds: "While it is a benefit to have a San Francisco base for Asian work, it is equally important to have a New York office because it is seen as a credibility requirement by many companies in Hong Kong and China."

Lawyers in the San Francisco Bay Area are most upbeat. Silicon Valley is booming, in terms of corporate work and real estate values. A San Francisco lawyer says: "Silicon Valley has had a ripple effect over the whole region."

Firms such as Wilson Sonsini Goodrich & Rosati and Brobeck Phleger & Harrison have risen to the *top of the* US rankings of advisers on equity issues on the strength of their Silicon Valley practices, and have kept their clients even after graduating from start-up to big corporation.

East coast firms *had* wrongly assumed that after the initial public offering, technology companies would use the established New York firms for their next stage of development and general corporate work.

San Francisco's position as a legal centre has been strengthened by recent consolidation in banking services that has left two San Francisco-based banks, Wells Fargo and Bank of America, domineting California's banking industry.

Paul Glad, senior partner of Sonnenschein Nath & Rosenthal's *San Francisco office, says*: "At the time we opened here in November 1987, there was e view that California was going to be increasingly dominated by LA, and that San Francisco and the Bay Area were fading away. The great irony is that it is LA that has faded – and with the unprecedented growth of Silicon Valley and the shift of the banking centre from LA to San Francisco, it is San Francisco which is now predominant."

But *some* LA lawyers are already pointing to San Francisco's real estate boom as an unsustainable bubble.

For lawyers across California, perhaps the best news is that smugness is back, e luxury precious few have been able to indulge in recently.

LEGAL BRIEFS

Access to ECJ judgments on the internet

Judgments of the European Court of Justice and the Court of First Instance are now available on the internet. The ECJ has had its own internet page on the Europa site since *October 1996*, containing general information about the court, press releases on the most important cases, and the weekly bulletin covering the proceedings of the two courts.

A weekly diary of forthcoming cases and the full text of all judgments delivered by the ECJ in 11 languages are now available from the date of delivery and will remain accessible on the court's internet *site for 12 months*. Several search criteria can be used: date of judgment; names of parties; case number; area of law; or key words.

The internet address is *http://europa.eu.int/cj/index.htm*
It will also be possible to access the Court's page more directly via *www.curia.eu.int*

Rival hiring

Los Angeles-based US international law firm Latham & Watkins has strengthened its corporate *practice in London* by hiring Bernard Nelson from US rival White & Case.

New merger

Paris-based international law firm Salans Hertzfeld & Heilbronn is to merge on January 1 1998 with London firm Harris Rosenblatt & Kramer. The merger offers synergies in banking and finance.

The new firm, Salans Hertzfeld *& Heilbronn HRK*, will have more than 200 lawyers and offices in London, Paris, Moscow, St Petersburg, Warsaw, Kiev, Almaty and New York.

هكذا من الأصل

Bulgaria

Daunting problems remain but there are signs the lessons of transition have been learned, says **Anthony Robinson**

Recovery is underpinned by realism

For millions of Bulgarians this traumatic year has marked a painful coming to terms with the realities of the post-communist world and an end to illusions.

The greatest illusion was the idea that things could go on more or less the same after the disintegration of the Soviet empire and the undemanding Comecon market within which Bulgaria lost its sovereignty but achieved modest post-war prosperity and a distorted form of industrialisation.

As the country most closely integrated into the Soviet empire, the cut off from cheap Soviet energy and raw materials and easy markets after 1990 required Bulgaria to undertake drastic restructuring.

Instead it got the opposite. Bulgarians were not psychologically prepared for the seismic shift in world politics. For seven years the economy wasted away as shallow reforms were carried out in an opaque atmosphere of political, economic and moral ambiguity.

External events made things worse. The UN-imposed trade embargo on Serbia provided rich pickings from smuggling and reinforced criminal gangs. The cost of the wasted years emerged in the second half of last year. Privatisation accompanied by asset-stripping on a massive scale, land reform returning much of the country to subsistence farming, and loose banking supervision allowing savings to be channelled into the pockets of shady financial-industrial "groups" sapped the economy's substance.

Nemesis arrived through a banking crisis combined with a run on the lev in summer 1996, forcing the closure of 14 banks and sparking hyper-inflation. The currency collapsed from Lv70 to the dollar at the start of 1996 to Lv3,000 at the turn of the year against a background of plummeting incomes, rising unemployment and a fall in GDP of 9.8 per cent over the first half of this year.

The future looked bleak until the turn of the year when the people of Sofia shook off the mood of panic and resignation and started to demonstrate in growing numbers outside parliament and the gold-domed Alexander Nevski cathedral.

Inspired by the months-long candle-lit street protests against the electoral chicanery of President Slobodan Milosevic in neighbouring Serbia, demonstrators started whistling and jumping up and down as they called on their compatriots to "sweep away the red trash" – their contemptuous name for the secretive, incompetent government of former-communists turned socialists led by the indecisive Zhan Videnov who won the 1994 elections with an undeliverable promise of painless reform.

The country's new mood led first to the election of Petar Stoyanov as an anti-communist, pro-reform president in November and was re-confirmed at general elections in April when the anti-communist Union of Democratic Forces (UDF) coalition led by Ivan Kostov and Alexander Bozhkov swept back to power after five years in opposition.

Fears that the UDF, which emerged from the communist dictatorship in 1990 as a bunch of inexperienced, squabbling intellectuals, would revert to type when faced with the strains and temptations of power have been stilled by the performance of the new government in the first six months.

Working closely with international financial institutions, the government introduced a currency board financial system on July 1. This was the fruit of a wide national consensus on the issue. It ranged from the UDF-backed president to a socialist party trying to transform itself into a European-style social democratic party and pledging constructive opposition to other government policies in parliament.

The currency board, backed by more than $1bn from the international finance institutions automatically links the domestic money supply to the level of foreign currency reserves at a fixed exchange rate of 1,000 lev to the D-mark.

The system, which operates in countries as diverse as Hong Kong and Estonia, effectively prevents the government from indulging in deficit financing or to bail out banks, except *in extremis* to head off a risk of systemic collapse. Above all it provides a fixed currency on which to build a stable macro-economic base. This will allow it to push ahead with a fast-track cash privatisation programme and reform of banks, enterprises and institutions which is the government's top priority.

The result so far has been a spectacular U-turn from last year's impending debt default to re-monetarisation of the economy and renewed economic growth. Hyper-inflation has been eliminated. After a blip in August when the monthly inflation rate jumped to 5.5 per cent, prices rose only 2.2 per cent in September and are projected to fall further. Hard currency reserves, and hence the domestic money supply, have risen sharply thanks to a combination of IMF, World Bank and EU loans. Higher than forecast privatisation receipts and a $350m trade surplus over the first seven months also contributed.

The trade surplus reflects both the start of a strengthening export-led recovery and the depressed level of imports. The latter is the result of the weakness of domestic demand after the collapse in incomes last year and the erosion of savings caused by hyper-inflation.

Bulgaria still has daunting problems. About 2.5m out of the 8.4m population are pensioners. The World Bank says nearly 80 per cent live under the poverty line. Foreign debt is about $10bn. Much of its industry is obsolete and the infrastructure is worn out.

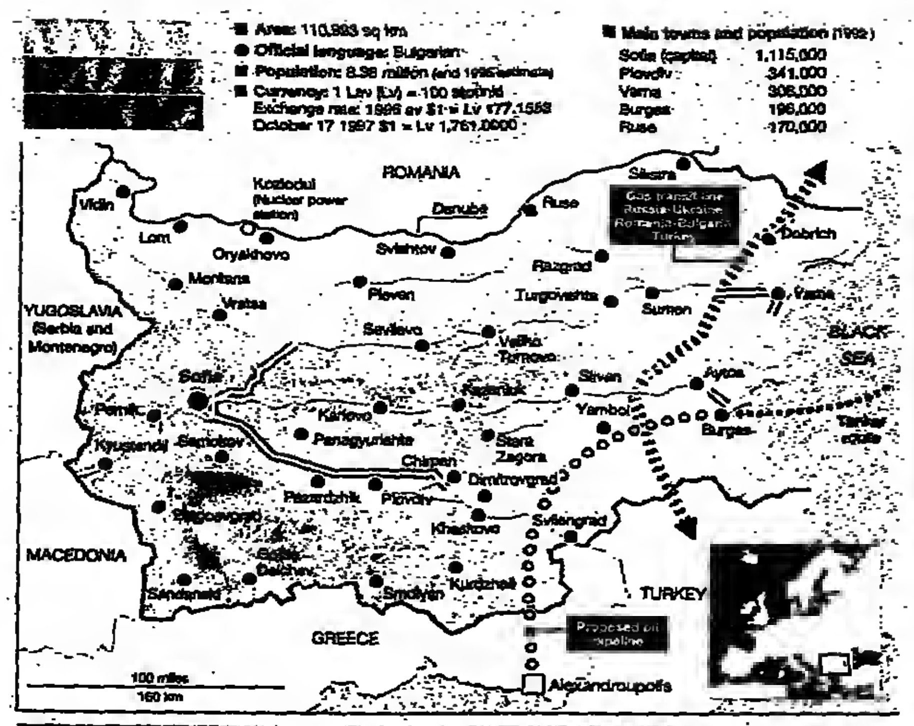
But, for the first time since 1990, Bulgaria has a government looking seriously at the lessons to be drawn from transition experience elsewhere and listening to foreign investors. Its conclusion is that speed is crucial and Hungarian style cash-privatisation is the fastest and most successful route to enterprise transformation because of the access it will provide to better management, product renewal and global markets. A new stock market is scheduled to start operations on October 21. Liquid banks with clean balance sheets are looking for foreign partners and domestic customers.

Meanwhile, local business, after its baptism of fire, has learnt sobering lessons. "The days of flash cars and endless chats on the mobile phone are over. We've learnt the hard way that time is money and business is risky," says a restaurant owner who only saved his construction business by selling land and cutting back to the core.

The new air of sober realism is accompanied by rising national self-confidence and an unambiguously pro-Nato and pro-EU stance. Both the president and Mr Kostov, the prime minister, insist that the desire for European integration is not a bar to good relations with a fellow-Slav Russia, which 120 years ago helped liberate Bulgarians from the Ottoman yoke.

On the contrary, they argue that Bulgaria needs the security of the Euro-Atlantic defence community and the EU to deal with Russia on a state-to-state or straight commercial basis without the hang-ups of the past when Moscow regarded Bulgaria as "Russia's little brother". This new confidence was underlined this month by a gas supply agreement assuring supplies for the next 10-15 years. It was linked to parallel talks on a new pipeline to transport 16bn cubic metres of gas annually to Turkey.

By the time the proposed pipeline enters operation early in the next century, a prosperous Bulgaria hopes to be part of a bustling Black Sea region. It is through Bulgaria that oil and gas will flow west from a Caspian region whose growing investment needs and rising wealth should transform the prospects of what until now has been an undervalued country on the neglected periphery of Europe.



Constitution

- **Legal system:** Based on the constitution of July 1991
- **National legislature:** Unicameral National Assembly of 240 members, elected by proportional representation. The United Democratic Forces, led by the Union of Democratic Forces, is the largest electoral coalition in the assembly, with 137 deputies; the Democratic Left, led by the Bulgarian Socialist Party, ranks second with 58 seats; the Alliance for National Salvation, led by the Movement for Rights and Freedoms, has 19 seats; the Euroleft has 14 seats and the Bulgarian Business Bloc 12
- **Electoral system:** Universal direct suffrage from the age of 18
- **National elections:** October/November 1996 (presidential) and April 19 1997 (parliamentary); next elections due by April 2001 (parliamentary) and October 2001 (presidential)
- **Head of state:** Petar Stoyanov, elected president in November 1996
- **National government:** A United Democratic Forces (UtDF) coalition, comprising the Union of Democratic Forces (UDF), the Bulgarian Agrarian National Union (BANU), the Democratic Party (DP) and the ethnic Turkish Initiative Committee for Renewal (ICR)

Economic summary

	1997 Forecasts	1998 Forecasts
Total GDP, nominal ($bn)	9.8	13.01
Real GDP growth (annual % change)	-7.0	1.5
GDP per head ($)	1,158	1,538
Inflation, end period (annual % change in CPI)	566.0	27.0
Industrial production (annual % change)	-6.0	0.0
Unemployment rate (% of workforce)	17.0	15.0
Three month interest rate (%)	15.0	10.0
Foreign exchange reserves ($bn)	1.3	1.5
Budget balance (% of GDP)	-6.2	-3.5
Gross external debt (% of GDP)	100.5	77.8
Current account balance ($bn)	-0.2	-0.4
Merchandise exports ($bn)	3.9	4.0
Merchandise imports ($bn)	-3.9	-4.2
Trade balance ($bn)	0.0	-0.2

Main trading partners (share of total trade to world, 1996)

Exports		Imports
36.5%	EU	31.3%
31.7%	CIS, central & eastern Europe	37.7%
9.8	of which Russia	28.4%

Sources: Ing Barings, EIU; Datastream/ICV

Leading the country's new mood: Petar Stoyanov (right), the anti-communist, pro-reform president, and Ivan Kostov, lawyer, former finance minister, and pro-market prime minister

ECONOMY • by Anthony Robinson

Confidence creeps back

The installation of a currency board regime was a turning point in the recovery

Bulgaria has staged a Lazarus-like recovery from what looked like impending economic death only nine months ago. The new year dawned with the the currency in free-fall, the banking system paralysed and fearful citizens stuffing what remained of their foreign currency savings into jam jars.

Confidence began to return with the replacement of the the deeply discredited socialist government. But the event economic historians are likely to record as the turning point occured on July 1 with the installation of a currency board regime backed by more than $1bn from the international financial institutions.

Martin Zaimov, the young deputy governor of the Bulgarian National Bank in charge of running the board argues that the real change is one of attitudes. "No-one expects the state to take care of them any more and people know that we have to become more efficient to survive," he says.

But the introduction of the board with backing from the IMF and the World Bank has played an important role by stabilising the currency and permitting the re-monetisation of an economy that had largely reverted to barter and black market trading.

"Current and deposit accounts in the banking system have doubled to Lv900bn since July and foreign currency deposits have risen to $1.4bn from $1.2bn," Mr Zaimov says.

He dismisses criticism that the fixed exchange rate of Lv1,000 to one German mark overvalues the currency. He also argues that selecting the D-mark rather than the dollar as the anchor currency makes sense in view of the volume of trade with the European Union and the intention to switch to the Euro once European monetary union becomes a reality.

"Banks are now clean and liquid and looking for clients to lend to," says a foreign banker. "Some companies are making money, exporters are doing well. The country racked up a $350m trade surplus over the first seven months."

The recovery is export-led, although retail sales were up 6 per cent in July when industrial production was also up for the first time in 17 months. There are other signs of recovery which Muravey Radev, the finance minister, believes could be quicker and more robust than once thought possible. He expects strong export-led growth in the fourth quarter accompanied by a strengthening of public finances.

"The budget deficit is now likely to be less than 4 per cent of GDP rather than the forecast 6.2 per cent per cent," he says. Lower interest rates on a national debt sharply reduced by hyper-inflation have cut debt financing costs although social security spending has been raised to ease the plight of the unemployed, specially those affected by the closure of bankrupt state companies and restructuring.

The public finances have also been boosted by higher than expected tax receipts, the first fruit of tighter control over the once notoriously corrupt border crossing posts and the government's professed determination to stamp out corruption and raise the efficiency of the state.

Privatisation receipts are also much higher than expected at more than $500m by the end of September, according to US investment bank JP Morgan. This compares to earlier government estimates of $350m for the year as a whole. Planned privatisations, including the sale of BTC, the telecoms company, should boost receipts again next year when JP Morgan believes foreign reserves, and hence the domestic monetary base, could rise to about $3bn from an expected $1.8bn by the end of 1997. A $200m inaugural eurobond is in the works.

Such an expansion of the monetary supply would boost bank deposits and facilitate domestic investment by bringing down interest rates.

Here, the greatest risks would be a resurgence of inflation or – triggered by a political or external systemic shock – a currency outflow and the sort of crisis that has undermined stabilisation efforts in the past.

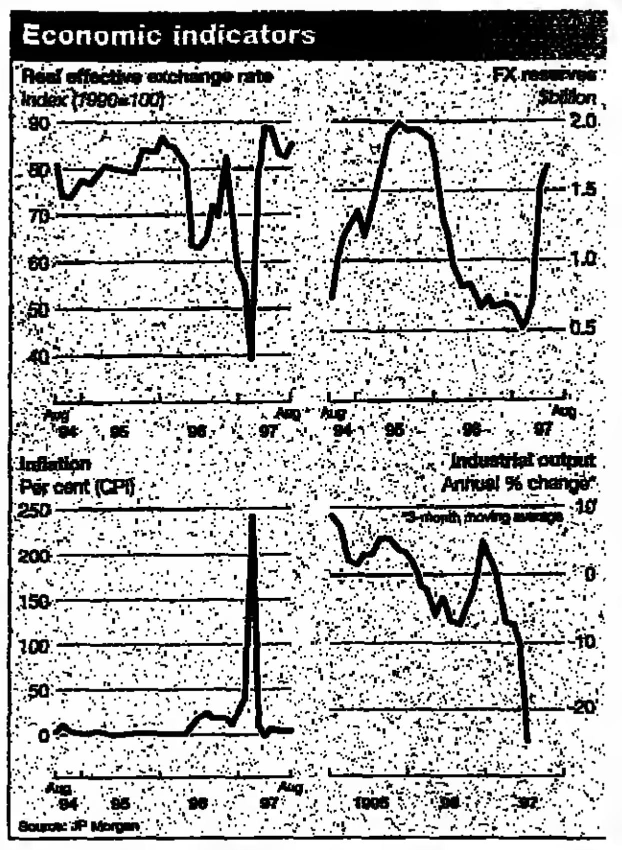
This would leave the economy vulnerable to another rapid contraction – bad news for a population whose incomes, especially those of 2.5m pensioners, have already been cut to survival level as the result of last year's hyper-inflation and rising unemployment, including a 10 per cent cut in civil service staffing.

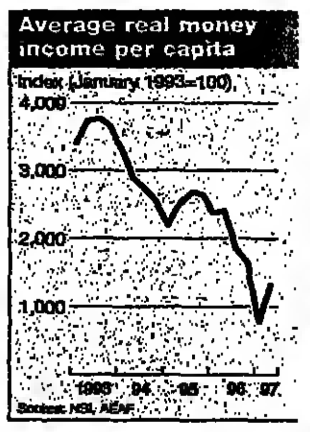
Given the high level of foreign indebtedness, the World Bank notes that the heavy infrastructure investment required to modernise infrastructure developments must come largely from private equity investment on the Hungarian model.

Breaking up domestic monopolies also requires foreign investment. Privatising Neftochim, the monopoly refiner, for example, could be accompanied by encouraging competitors into the refining and energy transport market. This is an area with big growth potential as the Black Sea area develops into a Caspian oil and gas transit and processing centre.

Meanwhile, the short-term priority is to get the credit and banking system working again. "The main problem for Bulgarian enterprises is a shortage of working capital. The government knows this and is pushing privatisation as a way out of the dead-end," say analysts at Raiffeisen bank in Sofia.

Foreign bankers also note rising foreign investor interest in sectors such as ceramics, tourism, electronics, oil, power generation and engineering and agriculture, where there is huge potential particularly for the younger sons of European farmers who face being squeezed by reform of the EU Common Agricultural Policy and can buy or lease good farming land here", say analysts at ING bank.





ENERGY • by Anthony Robinson

Cutting out the state

A deal for gas from Russia departs from earlier state-level agreements

Bulgaria's rising strategic importance as a key energy transit route in the Black sea region has been underlined, paradoxically, by a recent domestic gas supply agreement. The deal, which guaranteed Russian gas supplies to Bulgaria, cleared the way for a much bigger deal – the construction of a new $500m transit gas pipeline between Russia and western Turkey before the end of the century.

The deal between the Gazexport arm of Gazprom, the Russian gas monopoly, and Bulgargas, the Bulgarian state-owned gas company, secured deliveries of the 6.5bn cubic metres of gas which Bulgaria consumes annually – in addition to its locally produced coal and nuclear power from the Kozlodui complex on tha river Danube.

Datails are still being worked out. But the outline agreement is considered of enormous political as well as economic significance by Ivan Kostov, the prime minister, and other senior ministers. For the outline deal hammered out in Moscow earlier this month marks a departure from the state-to-state neture of previous deals and sets a marker for future energy-linked negotiations on a commercial basis with Russian companies rather than the Russian government.

The deal also leaves a question hanging over the future of Topanergy, the energy company set up three years ago as a joint venture between Gazprom and Bulgargas. Gazprom subsequently changed the ground rules by gaining an effective majority stake through its links with Bulgarian subsidiaries of Multigronp, the financial bolding company controlled by Ilya Pavlov.

Multigroup controlled companies, such as the pipeline construction company Overgas, in which Gazprom has e stake, diluted the original 50 per cent stake beld by Bulgargas by taking minority stakes in Topenergy when the state gas company was unable to fund its share of a capital increase. This gave effective control over Topenergy to Russian interests, a development which met a characteristically ambivalent response from the socialist government.

The new UDF government, by contrast, made clear its determination to retain ultimate control over gas negotiations and over pipelines on Bulgarian territory. It insisted that any deal should be done directly between Gazprom and Bulgargas, cutting out Topenergy.

The government also wanted a $30m contract to eliminate a 10km bottleneck on the existing 264km transit pipeline to Turkey to go to Bulgarian construction companies. This will bring the 10km stretch close to the Turkish border up to the same 1.22 metre diameter pipe size as the rest of the line and will raise capacity from 6bn to 9.5bn cu metres, says Ivan Shilyashki, chairman of the state energy committee.

The Bulgarian government made clear that the domestic gas deal would be seen as a test of Russia's willingness to respect the national sovereignty of a country many Russians have considered almost part of Russia since Tsar Alexander II helped liberate Bulgaria from Ottoman rule 120 years ago.

Crucially, the prime minister also insisted that negotiations over the future transit pipeline to Turkey, which Moscow strongly desires, should run in parallel, and be linked to, negotiations to secure domestic gas supplies for the next 10-15 years.

The proposed second transit pipeline is expected to be laid alongside the existing 1.22 metre pipeline which carries Russian gas to Istanbul. The initial capacity of 16bn cu metres could be lifted to 25bn cu metres with limited extra investment in additional compressor stations, the energy committee adds.

The new sonthern transit pipeline, which is expected to carry gas from the Caspian region, will transit through southern Russia, Ukraine, Moldova and Romania before running the last 260km through Bulgaria to the Turkish border.

But Bulgaria is not only the last link in this epic journey. It is also the distribution centre whence newly installed pipelines already carry relatively small amounts of Russian gas into Serbia, Macedonia and Greece.

Billions of dollars are expected to be invested in oil and gas exploration, development in the the oil and gas fields around the Caspian sea and billions more in transporting the new production to western markets.

Already Black Sea ports, such as Varna and Burgas in Bulgaria and Constanta in Romania are preparing to handle the expected volumes of energy-related investment goods in transit. Burgas for example will be partially developed through a $150m loan from Japan's Overseas Economic Co-operation Fund. Much oil and gas related equipment is likely to be ferried across the Black Sea to ports in Georgia, Ukraine and southern Russia once territorial problems surrounding Caspian developments are resolved and international energy companies give the go-ahead for heavy investment.

In the meantime, increasing congestion along the Bosporous and the explosive growth of population and energy demand in Istanbul and the other cities of western Turkey underline the growing economic attraction of Turkey as a market and the need for alternative exit routes for the projected future oil exports from the Caspian region.

Several alternative routes to avoid the Bosporous are under discussion. They include an oil pipeline from Burgas to Alexandroupolis, a Greek port in the northern Aegean sea and a pipeline through Bulgaria and Macedonia to Albania. But Russian oil companies are also studying alternative routes to the west, including an oil pipeline to the Adriatic coast of Croatia.

Mutual self-interest

Putting Bulgaria's relations with Russia on a new basis of mutual self-interest and respect is a key aim of government policy, says Ivan Kostov, the prime minister.

"We want equal terms and mutual benefit to be the basis of our relationship with Russia, not only on oil and gas questions, but in general. That is why we insisted that negotiations on domestic gas supply and the transit gas issue take place in parallel. The Russians finally agreed," he says, speaking in his office in Sofia's former "Soviet of Ministers" building.

"Our geographical position gives us a natural advantage that we cannot just give away. We need Russian gas and they need transit rights to supply the huge potential market in Turkey and the Balkans. That is the basis for a trade-off between the price of gas supplied to Bulgaria and the terms of the transit tariff through our territory," he adds.

Construction of big new transit pipelines will also enhance Bulgaria's claim for Nato and EU membership, he argues. "Our neighbours, Greece and Turkey are customers for the Russian gas. They are also Nato members. Eventually gas might flow as far as Italy, another Nato member."

Political and strategic considerations also condition Mr Kostov's opposition to Topenergy being included in the energy deals being finalised. "Accepting a role for Topenergy would be tantamount to accepting a modern version of the former Brezhnev doctrine which formalised the limited sovereignty of central Europe.

"Instead of the Brezhnev doctrine we would have the 'Vahirev doctrine' [Rem Vahirev is the president of Gazprom who built a controlling stake in Topenergy]. Supplies would be conditional on Gazprom's interest. If a government fell as a result of a cut-off in gas supplies the next government would not be a Bulgarian government it would be a Gazprom government. We could not allow Topenergy to enjoy such a combination of immense power without responsibility," he says with a shrug of his shoulders.

PRIVATISATION • by Kerin Hope

Last attempt to dispose of assets

After seven years of stopping and starting, privatisation is back on track

After seven years of on-again, off-again privatisation policies, Bulgaria is making a last-ditch effort to find buyers for about 30 big enterprises that have remained firmly in the grip of the state.

The aim is to the evoid delays, caused by inefficiency and corruption, that have plagued previous attempts at privatisation and discouraged investors. Companies failing to find buyers in the next 16 months will be liquidated, says Alexander Bozhkov, deputy prime minister and industry minister, who holds overall responsibility for privatisation.

However, the timetable is less rigorous for selling controlling stakes in five state-owned banks and for disposing of smaller companies in mining, manufacturing and food-processing.

The diverse group of companies for sale under Mr Bozhkov's fast-track privatisation programme include Soviat-era chemicals and pharmaceuticals manufacturers, e dilapidated Black Sea tourist resort and Balkan Airlines, the struggling state carrier.

For foreign investors, the main attractions of the fast-track programme will be the sala of a strategic stake in Bulgarian Telecommunications Company, the state telecoms monopoly, and the disposal of Neftochim, the biggest oil refinery in south-east Europa, based in the Black Sea port of Burgas.

Mr Bozhkov launched the programme early this year as Bulgaria struggled to overcome its worst economic crisis since the collapse of communism. A desperate need for hard currency to prop up the foreign exchange reserves and meet interest payments on external debt proved a catalyst in completing several much-delayed privatisation deals.

In the first big deal, Solvey of Belgium paid $150m of the $160m purchase price for a 60 per cent stake in Sodi Devnya, the Bulgarian soda ash manufacturer, on the day the contract was signed.

Two other big cash privatisations involving western European companies have also been completed. Marveks, e Spanish-Bulgarian joint venture, bought e 70 per cent stake in Devnya Cement, one of the biggest Bulgarian producers, for $44m and undertook to invest $200m in modernising the plant, situated outside Varna in the same industrial area as the Sodi factory.

Union Minière, the Belgian non-ferrous metals producer, paid $80m for 56 per cent of MDK-SPJSCo Pirdop, a copper smelter in central Bulgaria. Tha Belgian company agreed to invest $220m over five years, including the construction of an ore processor and an environmental clean-up. A $25m loan from the World Bank will finance the four-year clean-up project, designed to bring the plant in line with EU environmental standards.

The prospect of e fire-sale of Bulgarian assets has receded as the economy stabilises and funding from international agencies picks up, but cash from privatisations will remain important for cutting tha budget deficit next year. And only foreign buyers can provide the investment to modernise antarprises designad in Moscow to supply not just the small Bulgarian market but much of the former Comecon trade bloc.

To improve transparency and increase the chances of finding investors from abroad, the European Union and USaid, the US agency, are covering the cost of hiring international edvisers for the fast-track privatisation programme.

Deutsche Morgan Grenfell, the international investment bank, has already been appointed as BTC's adviser for the telecoms offering under an agreement with the World Bank. Treuhand, responsible for privatisation in the former east Germany, and Speedwing, the consulting arm of British Airways, the UK carrier, are advising Balkan Airways.

The start of privatisation procedures for another 26 companies has been delayed because of tha slow pace of disbursement of funds from EU programmes for aid to eastern Europe. "The procedures have been speeded up but we've been waiting for two months to get approval from Brussels to sign contracts with consultants," says Mr Bozhkov.

However, potential investors are voicing interest in Neftochim. Despite e chronic lack of investment, the refinery is operating close to its full processing capacity of 27,000 tonnes of crude oil daily. Its straigic position et Burgas, expected to become an important transit point for oil reaching the Black Sea from central Asia, is an additional incentive for investors.

Shell Petroleum, the Anglo-Dutch group which operates e petrol station chain in Bulgaa, is mentioned as e possile investor. But the main contender is Rosneft, the Rusian state oil company, which supplies Neftochim with crude oil and already opertes a joint venture, Rosbulneft, with the Bulgarian refiner for transporting oil and selling downstream products in international marets.

"Rosneft will certainly be bidding," says Valentin Zlatev, Rosneft's export director. "We would bring in considerable investment. We have already prepred a five-year programme for modernising the refiner, which would be carried out in co-operation with western engineering company."

PROFILE *Petar Stoyanov*

The benefit of hindsight

Hindsight puts turbulent events into perspective. Looking back over the first dramatic months of his presidency, Petar Stoyanov, whose election last November marked the beginning of the country's recoil from the brink of economic, political and social collapse, sees January as the turning point in Bulgaria's post-communist history.

"Bulgarian society and the political class found the wisest way to resolve the crisis. For the first time in seven years people and politicians faced up to harsh reality," he says.

Recalling the 30 days of anti-government demonstrations outside parliament and the gold-domed Alexander Nevsky orthodox cathedral around the turn of the year Mr Stoyanov says: "Further unrest would have caused grave problems for the country, but fortunately people realised that in time."

The first task facing the 44-year-old former divorce lawyer on taking office in December was to give e mandate to the socialist party's prime minister designate, Nikolai Dobrev, even though the clear message from the streets was that the socialists had lost the support that gave them e landslide victory and a four-year mandate at general elections only two years earlier.

"Both the main political groups, the Socialists and the Union of Democratic Forces (UDF), were waiting for me to give them e mandate," he says. "Fortunately the socialists found the sober common sense which was required and agreed to give up their mandate and work for a political consensus to end the crisis."

This all-party consensus has survived, albeit somewhat tattered et the fringes. "The opposition criticises the government, but so far criticism has been limited to alleged deviations from the national agreement," Mr Stoyanov says.

As for the introduction of the IMF-backed currency board Mr Stoyanov is convinced that "Bulgarian society knows that the CB is not e panacea and must be backed up by structural reforms, faster privatisation and more foreign investment".

"The importance of the CB is not only political and economic. Its introduction has also had a strong social and psychological impact on a country which was euphoric when tha communists were replaced by the first right wing government and then went through a wave of post-communist nostalgia and a return to socialist government," he added.

"The result was that although the first UDF government under Philip Dimitrov started serious reform, most of the last seven years we only had the pretence of reform. We deluded ourselves that we could survive without great sacrifices. But things kept getting tougher and we got deeper and deeper into debt. January marked the turning point when we shed our illusions."

Two months later, in April, voters swept the UDF back to power in peaceful, honest elections.

"The main proof of Bulgarians new-found political maturity however can be seen in the polls which still show over 50 per cent support for the reform programme - despite the closure of many enterprises, high prices and low wages."

Mr Stoyanov, who stood as the UDF's candidate in the presidential elections, promised to be a president for all Bulgarians in his inaugural speech and emerged as a key mediatory figure.

He bas also played an important role in raising Bulgaria's standing abroad - and tirelessly campaigning for Bulgaria to become fully integrated into Nato and the EU as soon as posible.

Ha underlines the importance of "a calm, clear" relationship with Russia – vital in view of Bulgaria's drive for Nato and EU membership which "should not be interpeted as an act of defiance or challenge to Russia".

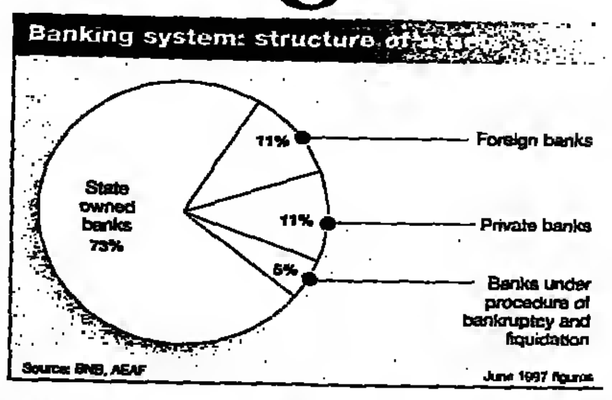
As President, Mr Stoyanov is also commander in chief of the armed forces. He backs changes aimed at creating a smaller, more professional body capable of operating with Nato or UN peace-keeping forces. He has promoted younger officers, such as Colonel General Mikho Mikhov, a former Mig 29 pilot, as chief of the general staff.

Anthony Robinson

BANKING • by Kerin Hope

Still reeling from the crisis

After the collapse last year of 14 of the country's banks, confidence is trickling back



Bulgaria's banking sector is struggling to recover from the collapse last year of 14 out of the country's 35 banks, including five state-owned institutions and a group of private banks that had claimed to be spearheading the country's economic transition.

The government has decided that the key to a prudent banking system is to seek foreign equity participation in state-owned Bulgarian banks and transfer management to the new shareholders. United Bulgarian Bank, one of six surviving state banks, has already been privatised and two others, Expressbank and Postbank, are due to sold in the next few months.

But the crisis in which annual inflation reached 1,200 per cent and interest rates briefly touched 3,000 per cent has left surviving banks in a state of shock.

Deposits are trickling back as confidence starts to recover, but an estimated $600m in dollars and D-marks is still being kept under mattresses and in jam jars, say Bulgarian bankers.

Loan books have shrunk, mainly because Bulgaria's chastened bankers now shun practices that encouraged the emergence of high-rolling "credit millionaires" who made no attempt to meet interest and repayment deadlines. "People are scared to lend to anyone other than state companies with big cash inflows and a few multinational clients," says a foreign banker. "Successful banking at present means concentrating on trading government paper."

The introduction in July of a currency board system which pegs the national currency to the D-mark at a fixed rate of Lv1,000 has done much to restore stability. Annual interest rates on treasury bills have fallen to 6.5 per cent, while lending rates for the few bank customers permitted to take out short-term loans carry an average interest rate of about 12 per cent.

The government has accepted a restructuring plan proposed by the International Monetary Fund, designed to put Bulgaria's banking sector on a permanently sound footing. It calls for improvements in supervision by the central bank, to be implemented with the help of foreign experts, and bans refinancing of commercial banks by the central bank. It also sets strict capital adequacy requirements.

After raising their capital adequacy ratio over the past few months to the 8 per cent minimum required under Bank of International Settlements regulations, the banks must boost the ratio to 12 per cent by the end of 1998.

Under Bulgaria's deposit guarantee scheme, small savers have been able to retrieve the full amount of funds that were frozen when banks started closing their doors last year. Many have accepted offers of immediate payment of their foreign exchange holdings in equivalent amounts of lev at fixed exchange rates set by the currency board, rather than wait for instalments of US dollar and D-mark deposits.

New banking regulations ban directors of failed banks from joining the boards of financial institutions. To a large extent, board-members of banks are held responsible for a disastrous expansion of credit that effectively transformed some banks into pyramid schemes, by channelling depositors' funds to companies run by their business associates.

Preparations are also under way for lifting banking secrecy regulations so that "credit millionaires" can be brought to trial.

Disposals of state-owned banks are being handled by the Bank Consolidation Company, the holding organisation for state-owned banks. Although the small Bulgarian market is not considered likely to attract many big international players, Petar Zhotev, executive director of BCC, says he has received an couraging number of replies from the 40 international institutions which were invited to bid for a Bulgarian bank.

"We're confident that we can sell two or three banks," Mr Zhotev says. "But if there isn't enough demand, we will aim to sign management contracts instead with a foreign institution, and offer these banks for sale again six months or a year later."

In July, Oppenheimer & Co of the US, which has since become part of Canada's Imperial Bank group, took a 30 per cent stake in United Bulgarian Bank. The European Bank for Reconstruction and Development acquired 35 per cent, with Bulbank, the biggest Bulgarian state bank, taking the remaining 35 per cent.

Raiffeisenbank, the Austrian bank's Bulgarian venture, is the frontrunner to acquire Expressbank, a profitable bank based in the Black Sea port of Varna. Raiffeisen is bidding against Daewoo Securities of South Korea, whose parent group last year acquired the Sheraton Hotel in Sofia and has an active trading presence in Bulgaria.

Mr Zhotev says that if negotiations with Raiffeisen or Daewoo fail, BCC will hold an international tender next year to dispose of Expressbank. This prospect alarms Expressbank officials who want the takeover to happen quickly, although it would mean a high level of redundancies and the closure of several of its 26 branches and many of the 70 deposit-taking offices around Bulgaria.

"We need a foreign partner to come in as soon as possible, otherwise the foreign banks will ignore us and start building their own branch networks," says Simeon Gospodinov, head of Expressbank's international department.

Next for disposal is Postbank, for which Nomura International of Japan and National Bank of Greece, are expected to make firm offers next month. It will be followed by Hebrosbank, a smaller regional bank based in the southern city of Plovdiv, and Biochim, which is still struggling with bad debt. The future of Bulbank, which dominates the Bulgarian market, has to be worked out but Mr Zhotev says it "will soon start looking for a core group of strategic investors from abroad".

A worker test maturing wine: last year Bulgaria exported 80 per cent of its total wine output, of which more than 100,000 litres was sold to the UK

AGRICULTURE • by Kerin Hope and Theodor Troev

Mixing grape and grain

Abundant land should appeal to investors in a wide variety of farm products

From rolling wheatfields in the Thracian plains to alpine pastures high in the Pirin mountains, Bulgaria is an appealing prospect for would-be investors in grain production, and dairy farming.

It also has the potential to become a giant market garden for the region, supplying fresh fruit and vegetables to Istanbul and the burgeoning cities of western Turkey and further afield in the Black sea region and the middle east.

Ventsislav Vurbanov, agriculture minister, says completing land reforms is a priority for the pro-market government which took power last April. He stresses that legislation due to be approved by parliament later this month will permit foreigners to buy farmland through joint ventures.

"Foreign investment is important for increasing farm output and for winning back our old export markets. Bulgaria has some of the best cereal-growing land in Europe and was a big wheat exporter 50 years ago. But we badly need new inputs, machinery and expertise," says Mr Vurbanov, whose family grows cereals on several hundred hectares in eastern Bulgaria.

Agriculture suffered as Bulgaria's communist-era rulers tried to transform the country into a model industrial producer for the Soviet bloc, although private farmers managed to produce sizeable yields on small plots of land that remained outside the network of state-owned co-operatives.

Economic transition has also been damaging, with large tracts of arable land left uncultivated since the break-up of the co-operatives seven years ago. The cattle population has fallen from 650,000 in 1989 to 350,000 at the start of this year as the co-operatives' dairy herds were split up among individual households. Thousands of cattle were slaughtered because of shortages of feed or for food during last winter's deep economic crisis.

About 24 per cent of Bulgaria's workforce are employed in farming, although agriculture last year contributed only 12.5 per cent of gross domestic product. The numbers of subsistence farmers have risen sharply in the past two years, with the return from the cities of elderly people and unemployed workers who were unable to survive on pitifully small pensions and redundancy pay.

Land reforms were launched in the early 1990s with the redistribution to pre-communist owners and their heirs of small parcels averaging less than 2.5 hectares. But only a small percentage of owners received official titles to their land, preventing the development of a land market and of long-term leasing to professional farmers.

While 70 per cent of the 5.8m hectares of land made available to private owners has been distributed, only 18 per cent of owners have received official titles. The remainder have been given temporary titles which may be contested in the courts.

Under the new legislation unlimited amounts of land can be leased, so that smallholdings can be united for large-scale cultivation of cereals. Foreigners are also allowed to lease private land and will be able to bid for leases being auctioned under a new scheme to make tracts of state-owned land available to private farmers.

Land reform is also likely to speed the privatisation of wineries and agri-processing factories, because potential buyers will be able to ensure regular supplies of fruit and vegetables through buying the surrounding land.

However, Mr Vurbanov dismisses suggestions that a well-developed farm sector could create problems for Bulgaria's bid to join the European Union in a second wave of enlargement. He points out that Bulgarian farm exports could be channelled more easily to markets in Turkey and the former Soviet Union than to western Europe.

Despite Bulgaria's tough economic circumstances, exports have continued of popular products such as wine and white cheese. Last year Bulgaria exported 80 per cent of its total wine output amounting to about 240,000 litres, of which more than 100,000 litres was sold to the UK, still much the biggest market for Bulgarian wine.

Most Bulgarian wineries have been privatised but funds for replanting vineyards and modernising winemaking plants are in short supply because many facilities were sold to employees and small investors under the government's scheme for mass privatisation.

Exports of white cheese, mainly to Greece and the Middle East, fell by 10 per cent last year to just 5,700 tonnes, according to the national statistical institute. But this figure does not include large quantities of Bulgarian cheese smuggled across the border into Greece and Turkey following the sharp decline in the value of the lev.

The liberalisation earlier this year of food prices, under reforms agreed in return for an international Monetary Fund loan, is likely to encourage poultry and livestock farmers to increase output. The outlook for grain producers has also brightened with the reduction of a 15 per cent tax on wheat export earnings to 10 per cent following a better-than-expected wheat harvest of 3.7m tonnes.

Nelly Stefanova, chairperson of Agricultural Credit Centrale, a state agency which lends to small farmers, says: "It's becoming clear that there is money to be made in farming. Young people no longer dismiss it as an occupation for their grandparents."

PROFILE United Bulgarian Bank

New era for a tough survivor

Stilian Vatev, the 42-year-old executive director of United Bulgarian Bank will never forget the last four months of 1996. Every day long queues of anxious depositors lined up for hours outside its branches to withdraw their money.

"We lost 45 per cent of our deposit base in those months, about $5m a day. I remember keeping a close eye on the weather forecast, to make sure the planes carrying cash from our correspondent banks abroad could land. It was terrible," he says with a shudder.

But UBB, which started operations in 1993 after the merger of 22 small, under-capitalised banks, survived. This summer it became the first bank to be privatised under the new government, for whom bank privatisation and consolidation is a priority.

In its newly privatised form UBB is determined to remain a player in what is expected to be an increasingly competitive banking market as competition from foreign or foreign-owned banks in particular increases.

"We anticipated last year's crisis and stopped lending at the start of 1996. We also cut our exposure to domestic banks," says Mr Vatev, who spent 11 years at the National Bank before joining UBB in 1993.

But prudence in face of the impending crisis would not alone have guaranteed survival. As a state-owned institution the bank handled large parastatal accounts, such as the National Electricity Corporation and Bulgarian railways. This gave it a public sector client base denied to private banks.

Happily the crisis, which led to the closure of 14 banks, blew up after UBB had just been re-capitalised with the help of the state-owned Bank Consolidation Company. Last year the BCC injected into the bank the equivalent of $120m in Zunk bonds – Libor-linked domestic bonds issued by the ministry of finance to re-finance foreign currency denominated bad debts.

Before the crisis erupted UBB maintained a rough 50/50 split between state sector and private sector clients. As the bank's loan and deposit books shrank to bare survival mode in 1996 the balance shifted heavily towards the former. In future it will shift back towards private sector lending following privatisation in July.

The privatisation is not complete, in that state-owned Bulbank took over 35 per cent of the shares from the Bank Consolidation Company.

But the decision of the European Bank for Reconstruction and Development to take a 35 per cent stake alongside the US investment company Oppenheimer and Co which bought the remaining 30 per cent has given UBB majority foreign owners and access to fresh capital. Oppenheimer has since been taken over by Imperial Bank of Canada which has not yet made clear its intentions towards UBB.

Until now UBB, like other Bulgarian banks, has been unable to lend on other than a short-term basis because the bulk of its deposit base, both lev and foreign currency denominated, has been mainly in sight or other short-term accounts. The bank's strengthened capital base means that UBB is poised to start lending on a longer-term basis.

The bank's paid in capital of Lv21m will rise to Lv76bn by the end of November following the shareholders' agreement in July to inject $30m into the bank. But it will be a long time before UBB or any other Bulgarian bank forgets the recent trauma.

Meanwhile depositors, who mostly converted their savings into hard currency before stuffing the notes under mattresses, are regaining confidence. "In the three months since privatisation lev deposits have doubled, although they are still well below July 1996 levels in real terms," Mr Vatev says.

UBB, with its 38 regional branches and over 130 sub-branches and outlets, has the biggest branch network of any bank and is well placed to benefit from the hoped for return of depositor confidence and the economic upswing.

"But we have to cut costs, reduce staff from current levels of 3,100 and close down some branches. The market has declined and competition has increased, including from our own biggest domestic shareholder, Bulbank. We've imported a new culture along with our new shareholders, now we have to make it work," Mr Vatev says.

It will be an uphill struggle to compete against the banking skills and services offered by the foreign banks such as Dutch-based ING and Austria's Raiffeisen which are set to expand organically or by taking over some of the Bulgarian banks up for sale.

Anthony Robinson

GREEK ENTREPRENEURS • by Kerin Hope

A gateway to eastern markets

For many Greek companies, Bulgaria is the first step into eastern Europe

Bulgaria is the country chosen by most Greek businesses for their first venture in eastern Europe, whether they are traders shipping goods across the border, local subsidiaries of multinationals or fast-growing food and beverage companies listed on the Athens stock exchange.

The collapse of communism re-opened markets from which all but a handful of Greek companies were excluded for almost 50 years. During Bulgaria's period of prosperity in the inter-war years, the Greeks handled most cargoes shipped through the Black Sea ports of Varna and Burgas, while Greek commodity traders maintained offices in Sofia and other Bulgarian cities.

Greek companies seeking to remain competitive over the next decade are leading the drive to invest in eastern Europe. Bulgaria, with a similar market size to Greece and comparatively good communications, is considered the easiest place to start.

Bulgaria is also a stepping stone for an increasing number of Greek businesses that have started exporting to Romania, Ukraine and Russia.

"A good many medium-sized Greek companies understand that they have to grow in order to survive. Expanding into the Balkans and the former Soviet Union is not just an opportunity. It's becoming an inevitable part of a business plan," says Costas Mitropoulos, managing director of Kantor, the Greek affiliate of Arthur D. Little, the international management consultants.

Hellenic Bottling Company, which holds several Coca-Cola franchises in the Balkans and parts of Russia, has invested steadily since starting operations in Bulgaria in 1991.

In addition to establishing joint ventures with several co-operative soft drinks bottlers around the country, HBC has built a Coca-Cola plant on a greenfield site outside Sofia and a plastics factory to make crates and bottle-tops for soft drinks.

Loukas Komis, HBC's corporate affairs director, says that investment in Bulgaria "amounts to almost $100m out of a total investment of $500m in the Balkans, Russia and Armenia over the past six years."

Through a joint venture with Athenian Breweries, the Heineken affiliate in Greece, HBC has also diversified successfully into beer production in Bulgaria. The joint venture, Brewinvest, paid $21m for an 80 per cent stake in Zagorka, Bulgaria's leading brewery, and has invested another $40m to modernise its plant at Stara Zagora and set up a nationwide distribution network.

In the textile sector, where a few Greek companies were able to start operating in Bulgaria even before the demise of communism, the much cheaper cost of labour has encouraged Greek manufacturers to shift production across the border.

More than 60 Greek producers of knitted cotton products ranging from T-shirts to children's pyjamas have set up joint ventures with Bulgarian partners. They manufacture for the German and Austrian markets under the "cut-and sew" system in which the foreign buyer supplies fabric and patterns and imports the finished garments.

Most joint ventures are set up in southern Bulgarian towns just a few hours' drive from Thessaloniki and other northern Greek cities where many "cut-and-sew" operations are based. There is no visa requirement for EU citizens entering Bulgaria, but Bulgarian factory owners complain that visas for Greece, even for a business meeting with a partner, are difficult to obtain because of restrictions imposed by the EU's Schengen accord.

Greece will come under increasing pressure from Bulgaria to grant more business visas following the opening of three new border crossings, which are due to be completed by 1999.

The absence of official crossings has not prevented small entrepreneurs from building a flourishing informal trade, using tracks dating from the inter-war period.

Greek customs officials say the official trade balance is boosted by widespread smuggling of agricultural products, cigarettes and petrol through the Rhodope range.

The volume of trade between Greece and Bulgaria fell last year by 15 per cent to $380m as Bulgaria's economy weakened, according to figures published by the Association of Greek Exporters.

But unofficial estimates put the trade volume at about $700m, if the proceeds of smuggling are taken into account.

TOURISM • by Kerin Hope and Theodor Troev

More to offer than sun, sea and sand

To help put other gems on the map, a network of tourist offices is being created

Bulgaria's sprawling Sunny Beach tourist resort on the Black Sea played host in communist days to an unlikely collision of cultures. At a mock-Tudor tavern nestling in the shadow of a giant hotel block, privileged Soviet workers could drink beside German and British tourists in one of Europe's lowest-priced destinations.

Every year from May to October, Sunny Beach and two other big complexes, Golden Sands and Albena, on the sandy coastline north of the port of Varna, were packed with tourists, most of whom travelled on the elderly Tupolev aircraft operated by the charter subsidiary of Balkan Airlines, the state carrier.

Awaiting discovery: Bachkovo monastery. Just one of the country's treasures Hutchison Library/Melanie Friend

With more than 60,000 beds in over 200 hotels, almost all in the two- and three-star category, as well as restaurants, cafes and shops, the three resorts operated as self-contained facilities. Few tourists ventured beyond Varna to explore the old-fashioned fishing ports of Nessebar and Sozopol.

A sharp fall in occupancy rates since the end of communism has shut down dozens of hotels in the Black Sea resort complexes. After almost a decade of neglect many units are in serious disrepair. Attempts at privatisation are still at an early stage, although beach-front units are being refurbished ready for sale.

Ventzislav Tantchev, sales manager at Golden Sands, says that Russian visitors are returning after the refurbishment of a quarter of the resort's 61 hotels, while a few big international tour operators such as TUI of Germany are again sending groups to Bulgaria. This year the resort attracted almost 100,000 visitors.

"Our selling point is price. We're a cheap destination for family holidays," Mr Tantchev says. "But we have an advantage because 40 per cent of our clients are repeat visitors. As we upgrade the facilities each winter, we can raise rates a bit higher."

Golden Sands, now a joint stock company run by its managers, ploughs back as much income as possible into upgrading facilities. Nine hotels have been sold to private operators, with the resort retaining e 30 per cent holding. This year two heated swimming pools were added to prolong the tourist season by a few weeks.

"This year we've had more Germans than Russians for the first time since the early 1990s and the British have also started to come back," says Mr Tantchev. "If we can extend the season a bit though upgrading of our installations, and by offering tours in the region, we can start ettracting more northern Europeans in older age groups."

Bulgaria's tourist authorities back the revival of package tourism but they are also aware that they have more to offer than a cheap sun-and-sea package holidays. Blessed with unspoiled mountains and upland lakes, and a wealth of frescoed Orthodox monasteries hidden among its forests, Bulgaria is awaiting discovery as a destination for more discerning travellers.

"Even if our hotels were in first-class shape, we would find it hard to compete effectively with Mediterranean destinations like Spain and Turkey," says Mariana Assenova, under-secretary for tourism. "We don't have a long stretch of coastline and the season on the Black Sea is several months shorter. We have to develop other types of tourism."

To put Bulgaria's mountains, monasteries and mineral springs on the map, the tourist euthorities are promoting the creation of a network of tourist offices run by local government officials to provide assistance for Bulgarians wanting to offer accommodation for foreigners in private bomes and guesthouses and to make information available for visitors. "Apart from a handful of ski-resorts with family-run botels and guesthouses, there isn't much organised accommodation outside the big cities," Mrs Assenova says.

The cash-strapped Bulgarian government is unable to finance advertising on the scale of the Spanish and Turkish print and TV campaigns in western Europe. So it is up to Bulgaria's niche operators to reach a growing international market for cultural and ecological holidays for small groups.

Boyan Manev and Blago Lefterov, former university lecturers in tourism who run Sunshine Tours, a small Sofia-based travel agency, are trying to develop the region of Trun, near the mountainous border with Serbia for walking and bird-watching holidays, with the help of "soft" tourism experts from the UK's Manchester Metropolitan University. "Trun is completely unspoiled because it was closed even to Bulgarians during the communist period," says Mr Manev.

TELECOMS • by Kerin Hope and Theodor Troev

Getting busy on the lines

Despite delays on privatisation, efforts are being made to upgrade the network

Political and economic npbeavals bave delayed plans for privatising Bulgarian Telecommunications Company, bnt the state operator has meanwhile made a serious start on building a modern telecoms network.

The timetable for selling a strategic stake in BTC to a foreign operator or consortium bas already slipped several times. The most recent delay was caused by long drawn-ont contract negotietions between the government and Deutsche Morgan Grenfell, the international investment bank selected last April as adviser for the sale.

Antony Slavinsky, the government's senior telecoms official, says DMG has started work after signing the contract last month, but thet tender documents for the bidding are not likely to be ready before mid-1998, because "there is a good deal of work to be done on BTC's accounts and the legal aspects of the sale".

The sale should be completed in the second half of 1998, Mr Slavinsky says. BTC has already been split off from the postal services, and its accounts are being audited to international standards by Arthur Andersen, the international accountants. A draft law has been prepared setting up a regulatory framework for the telecoms sector, due to be approved in parliament by the end of the year.

The government is committed to selling at least 25 per cent of the company to a strategic partner who will also take over over management. The possibility of making shares available to small investors by floating a minority stake on the new Sofia stock exchange will be considered at a later date, Mr Slavinsky says.

Telecoms privatisation is picking up speed in the Balkan region, following the sale in June of a 49 per cent stake in Telecom Serbia, the state operator, to Italy's Stet and OTE of Greece for DM1.57bn. Rom Telecom, the Romanian state operator, is due to be privatised in the first half of next year, to be followed by state operators in Moldova and Macedonia.

Regional alliances are under discussion, with OTE and Rom Telecom sbowing interest in acquiring a minority stake in BTC. The Greek telecoms operator has developed close links with BTC through a joint venture, Bulfon, which installs and operates cardpb ones manufactnred in Greece.

Bulgaria's fixed-wire network is in better shape than its ex-communist neighbours, with 32 telephone lines for every 100 residents, compared to 25 for Serbia and just 14 for Romania. This is because the network expanded in the 1970s as Bulgaria became a telecoms equipment supplier for the Soviet bloc.

BTC has digitised about 5 per cent of the network with the help of $160m in loans from the World Bank, the European Bank for Reconstruction and Development and the European Investment Bank, together with $107m of own funds. Over the past three years, 17 digital exchanges with a total capacity of 107,000 subscribers have been installed as part of a digital overlay network designed to upgrade services Bulgaria's main cities.

"We saved about $40m on our budget projections as a result of getting very competitive bids from suppliers who wanted to get in at the start of BTC's modernisation and this has allowed us to install an extra 40,000 digital lines," says Mr Slavinsky.

But abont two-thirds of BTC's subscribers cannot make international calls througb an automatic exchange, while many subscribers in the countryside still share party lines with their neighbours.

Mr Slavinsky says BTC plans to invest about $80m next year in expanding international connections and boosting digital capacity in local networks for smaller towns which were not included in the digital overlay project. More digital lines will be installed in the Black Sea tourist resorts and towns with a high percentage of business subscribers.

Bulgarian companies already have preferential access to digital lines, which make transmission of data faster and more reliable, and also allow calls to be time-charged. In Sofia and other cities, companies can have a digital "business" line installed within a few days but pay a high installation fee and higher rates for calls.

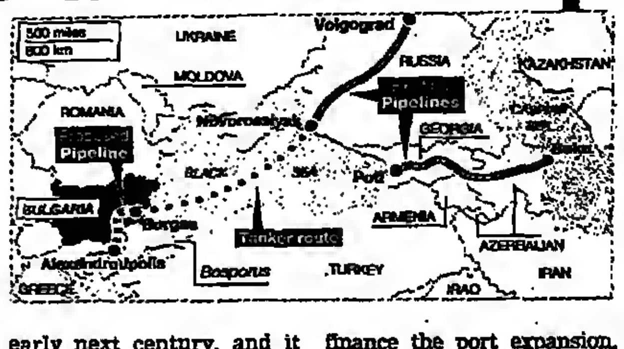
However, BTC's strategic partner will have to meet a beavy investment commitment to finish upgrading the network before the state operator's monopoly of fixed-wire telephony is lifted at the end of 2002.

A third mobile telephony licence may be offered as part of the privatisation package, Mr Slavinsky says. At present, Cable & Wireless of the UK operates an analogue mobile network, while Tron, a Bulgarian group, has set up a GSM cellular system wbich covers the country's main cities and highways.

THE PORT OF BOURGAS • by Theodor Troev

Pallets and bales pile up

Bulgaria's biggest port is likely to become a key transit point for regional trade



It is Saturday afternoon but Bulgaria's Black Sea port of Bourgas is bustling with activity. Coal and iron-ore concentrates are piled high at the quay used exclusively by Kremikovtsi, Bulgaria's giant steel company, awaiting shipment by rail to its plant outside Sofia.

Forklift trucks are manoeuvring pallets of lead and zinc ingots produced at the Kardzhali smelter in southern Bulgaria into position for loading. Bales of cotton from Uzbekistan are being hoisted off a freighter docked nearby.

Bourgas, a natural inlet which – unlike other Black Sea ports – is protected from all but the fiercest easterly winds, is Bulgaria's biggest port, with the potential to become an important transit point in the next decade for trade between Europe, the Black Sea rim countries and central Asia.

Its main competitor in the region is Constanta in Romania, but Bourgas claims to have an edge because it is closer to the busy Bosporus shipping lane linking the Mediterranean with the Black Sea, and to the port of Poti in Georgia, the main transit point for cargoes from the republics of central Asia.

"Market research indicates there will be a tremendous flow of cargo between the Black Sea and central Asia early next century, and it won't just be oil," says Vesselin Kraev, chairman of the port's board of directors. "We have the advantage of being the first big port you reach in the Black Sea from Istanbul, but there will be enough business for both ports."

To meet the anticipated surge in activity Bourgas port has developed a $365m master plan to be implemented over the next 18 years. The plan calls for construction of 4,000 metres of new quays providing four specialised terminals suitable for bigger vessels, as well as breakwaters and dredging to deepen shipping channels in Bourgas bay.

An extended breakwater would protect a new terminal for general and liquid cargoes. A bulk cargo terminal would cater for vessels up to 100,000 deadweight tonnes, far larger than the port's present limit of 70,000dwt. The third terminal would cater for truck and passenger ferries, while the fourth would handle Panamax-sized and feeder container vessels.

Bulgarie is already negotiating a $150m soft loan from Japan's Overseas Economic Co-operation Fund to help finance the port expansion. The loan, expected to be for 30 years with a 10-year grace period at the start, would cover 80 per cent of the cost of the new breakwater and the two new terminals for general and bulk cargo.

The remainder will be covered with the port's own resources, as one of Bulgaria's few profitable state enterprises, and from commercial bank lending. Mr Kraev says the port would have no trouble raising loans from foreign banks, given its expanding activity.

The port is not likely to be privatised, he adds, but "there is no reason why private companies shouldn't have their own installations or carry out construction on a build-and-operate basis".

Bourgas is also Bulgaria's main oil port as the region's biggest refinery, Neftochim is on the south side of the bay, with its own tanker terminal and storage facilities. The oil port hopes to become a key link in transporting Caspian oil to the Mediterranean under a Greek-Bulgarian-Russian project to build a 300km pipeline to carry 30m tonnes yearly of crude oil from Bourgas to the Aegean port of Alexandroupolis.

Although Bulgaria's gross domestic product is forecast to fall again this year, the first signs of growth in regional trade are already visible at Bourgas. Mr Kraev says Bourgas is operating at 80 per cent of capacity, compared with 60 per cent for an average European port.

Throughput of dry cargoes was up 7.5 per cent to 5.7m tonnes in the first nine months of this year. Part of the increase was due to a new ro-ro ferry line between Bourgas and Poti to handle trucks carrying goods such as non-ferrous metals and cotton from central Asia. The Poti route is being extended to include Novorossiysk, the Russian port in the north of the Black Sea.

"This triangular route is going to operate weekly to handle the higher cargo flows out of the central Asian republics," says Capt George Dereliev, the port's executive director and a former skipper of Bulgaria's ocean-going trawler fleet.

The port is expected to lift profits this year by 56 per cent to about $15.7m, most of which will be invested in improving facilities, Capt Dereliev says. Following the construction last year of a $13m cold storage terminal out of 1995 profits, this year's income will be used to make a start on construction of the new breakwater.

The port's success at a time of economic hardship has made it an attractive place to work. The 2,789 employees are among the highest-paid in Bulgaria with an average monthly salary of $290 compared with about $90 for the rest of the country, Capt Dereliev says.

هكذا من الأصل

INTERNATIONAL PEOPLE

Douglas heads R & D at HMR

Hoechst Marion Roussel, the US drugs company owned by German chemicals company Hoechst, has promoted Frank Douglas to the newly created post of head of research and development.

Douglas, 54 (above), was previously head of research, the department responsible for discovering potential new drugs but not for testing them on people.The head of development, Rotraut Labs is leaving the company.

"Unfortunately, my role in the new research and development organisation did not meet my career expectations and, regrettably, I have decided to leave the company," she said.

The changes come in the midst of a period of great change for the company, which was formed two years ago by the merger of Marion Merrell Dow of the US, Roussel-Uclaf of France and Hoechst's German-based drugs interests.

Since then the company has proposed spinning off the drugs company and, more recently, making it the core of a new Hoechst, based on the life sciences.

Labs is replaced as head of drug development by Ulrich Grau, who has been head of Hoechst Marion Roussel Netherlands since last year.

Douglas trained as a physical chemist at Cornell University and as a doctor at Johns Hopkins, both in the US.

He joined the pharmaceuticals industry in 1984 as director of clinical biology at Ciba-Geigy, the Swiss company, rising to director of US research.

In 1992, he joined Marion Merrell Dow as executive vice president of global research and development and a member of the board of directors.

Daniel Green, London.

Folkerts-Landau to DMG from IMF

David Folkerts-Landau has joined Deutsche Morgan Grenfell, the investment banking arm of Deutsche Bank Group, from the International Monetary Fund as managing director and global head of emerging markets research.

At the IMF Folkerts-Landau was head of the capital markets group and is one of the most senior IMF staff members to join the private sector.

At DMG Folkerts-Landau will head the bank's efforts in emerging market economics research, including sovereign credit analysis and macroeconomic research in equities. "He will be responsible for building a global team of economists and strategists. The priority goal is for DMG to build the top-ranked research team in this area by 1999," DMG said.

At the IMF he was closely involved in the fund's financial rescue package for Mexico in 1995 and is the author of several books and articles on emerging market finance.

William Lewis, New York

Ford promotes Britons to top jobs

Ford Motor, one of the world's biggest motor manufacturers, has announced that two Britons, Richard Parry-Jones and David Thursfield, are taking responsibility for the product development and manufacture of all of its vehicles.

Parry-Jones, 47, who becomes group vice-president, product development, is currently vice-president of the small and medium car vehicle centre, Ford Automotive Operations, which is jointly based in the UK and Germany. He succeeds Jim Englehart who is retiring and will be based in the US.

Parry-Jones, a car racing enthusiast, joined Ford of Britain in 1969 as an undergraduate trainee and progressed rapidly through the organisation.

In 1987 he became director, technical planning office, in the US. A year later, he was appointed director of vehicle concepts engineering at Ford's scientific research laboratory.

In 1989 Parry-Jones returned to Europe where he ran manufacturing operations at Ford's Cologne assembly plant. In 1991 he was named chief engineer, Ford of Europe, and led the development of recent Ford models including the Mondeo.

Thursfield, 52, who becomes vice-president, vehicle operations, is currently vehicle operations manager, Ford Automotive Operations, in the US.

His current responsibilities include overseeing the operations of 38 automotive stamping and assembly plants in Australia, Canada, England, Mexico and the US.

He started his working life as a plant manager with British Leyland and joined Ford in 1979 as manager of the Broadmeadows car assembly plant in Australia. Thursfield subsequently held a variety of management positions and became director, body and assembly operations, Ford of Europe, in 1992. In 1996 he moved to the US. In his new role he replaces Dale McKeehan, who is retiring.

Lisa Wood, London

Moving places

■ CREDIT SUISSE FIRST BOSTON (Asia) has appointed May Wong Tung to the new position of director and head of syndicated finance in Asia, based in Hong Kong. She joins from Bank of America in Hong Kong where she was a managing director and head of structured trade finance.

■ PARIBAS, the international investment bank, has appointed Nick Stevenson European equity strategist. He joins from SBC Warburg.

■ M A I D, the online supplier of business intelligence, has appointed Jason Molle and Ciaran Morton to the board. Molle is president of M A I D's North American operation. Morton is currently president of M A I D's European, Middle Eastern and African operations.

■ Paul Loach, head of the European business unit of LGT Asset Management and chairman of Chancellor LGT Asset Management, is appointed chief executive of LGT ASSET MANAGEMENT Division with immediate effect. He also joins the executive management group and will be proposed for election as a director of the LGT board at the next shareholder's meeting. Anton Schwaiger, who stepped in after the departure of David Minella in February 1997 and took over as chief operating officer of both LGT divisions, will resume his role as chief executive of the LGT private banking division.

■ The UNION BANK OF SWITZERLAND has appointed Daniel Harel its new head of the bank's treasury advisory team for east Asia. Jeremy Thirsk becomes head of project finance for the Asia Pacific region. He was previously head of project finance for UBS in London.

■ DAIWA EUROPE has appointed Jean-Pierre Albin to join its syndicate desk in London as a director responsible for primary trading. He joins from the syndicate desk of Nomura International in London.

■ Philip Marineau, president and chief operating officer of DEAN FOODS, has resigned to become president and chief executive of Pepsi-Cola North America. Howard Dean, chairman and chief executive officer of Dean Foods, will assume the duties of president while he and the board of directors seek a successor.

■ DELL COMPUTER CORPORATION has announced that it has opened a direct sales office in Finland. Keijo Vikkula, 41, has been appointed country manager, Finland. Ha joins from Digital Equipment.

■ UNION DES BANQUES SUISSES (UBS) has appointed Herve Marion, 43, managing director in charge of the creation and development of equity investments in France. Marion has been with Schroders Partenaires since 1995.

■ MICROSOFT FRANCE has appointed Jean-Yves Grisi, 34, director of its new business solutions division. He joined Microsoft France in 1991 from Andersen Consulting.

■ SINGAPORE TECHNOLOGIES AUTOMOTIVES has promoted deputy chairman Loh Chuk Yam to chairman following the resignation of Lye Fei from October 1. Loh is the president of government-owned Chartered Industries of Singapore. Boon Swan Foo will be deputy chairman of the company. He is chief financial officer of the government-owned Singapore Technologies.

■ JOHN LAING has appointed Isabel Liu managing director of its Asia-Pacific infrastructure investment subsidiary. Liu was previously with AIG Investment Corp (Asia) Infrastructure Group in Hong Kong.

■ DRESDNER KLEINWORT BENSON North America has announced the appointments in its corporate finance department of Matthew Belzer as head of financial institutions and Dalip Gambir as head of telecommunications and media. They will be based in New York. Belzer joins from BZW, the investment banking arm of Barclays Bank and Gambir from Citicorp.

■ Hassan Sunbol has been appointed director, global Islamic finance at ANZ INVESTMENT BANK, the investment banking arm of Australia and New Zealand Banking Group. He joins from the National Commercial Bank, Jeddah.

■ SALOMON BROTHERS Asia pacific has announced the appointment of Huan Guocang as managing director and co-head of Asia pacific Investment Banking. Huan joins from BZW.

■ The CHASE MANHATTAN PRIVATE BANK has announced the promotion of Carlos Perez-Parada to senior investment executive for Europe, the Middle East and Asia Pacific regions, and Ezequiel Bosch to deputy head of the Geneva investment team.

■ Guy Laureoce, executive vice-president International Distribution and Marketing for MGM Studios, is to join PLANET HOLLYWOOD in January 1998. He will be responsible for the marketing and development of the Planet Hollywood brands across Europe and will initially take the title of executive vice-president marketing Europe. Planet Hollywood currently operates 18 European Restaurants.

■ The Moscow office of international law firm CLIFFORD CHANCE has recruited a Price Waterhouse partner to develop its tax capability for clients in the finance, securities and corporate/commercial areas. Robert Frost, 43, will join the firm's Moscow office as director of tax services.

■ SEGA EUROPE has appointed Kazutoshi Miyake chief executive. Miyake takes over from Malcolm Miller who will leave to join Pace Micro Technology as chief executive.

■ LEHMAN BROTHERS has appointed Paul Freeman chief financial officer for Lehman Brothers (Asia). Thomas Bolland becomes chief financial officer for Lehman Brothers (Europe). Bolland previously served as co-chief financial officer for Europe with Paul Freeman.

■ Constantinos Grigoriadis, head market analyst for central and eastern Europe of the IFC's Emerging Markets Group in Washington DC, has moved to the Pension Investments division of THE WORLD BANK with responsibility for emerging markets equities and debt.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

BUSINESSES FOR SALE

INTERNATIONAL CAPITAL MARKETS

Single-currency confusion hits gilts

GOVERNMENT BONDS

By Vincent Boland and Alexander Stevenson in London and John Labate in New York

Problems over European monetary union returned to haunt the markets yesterday, with UK gilts sliding after confusion over the government's stance on Emu.

Other European markets were calmer and traded higher on the back of a good performance by German bunds. The US posted a small gain at the opening.

Most attention was focused on London, where GILTS were knocked off their recent high perch by an apparent volte face on whether and when the UK would sign up for the single currency. Dealers marked gilt futures sharply down from Friday's closing levels, although they reported little heavy selling during the day and some sustained buying late in the session.

Kevin Adams, gilt strategist at BZW, noted that the gilt curve at the close yesterday was "almost identical" to that at the close of business on September 25 – the day before the Financial Times reported that the cabinet was moving closer to the idea of sterling's joining the single currency.

The main difference was that yesterday the spread of 10-year gilts over bunds stood at 103 basis points, compared with 120 points then. The spread yesterday was 10 points higher than on Friday, but there was little real selling to accompany the sharp mark-down.

"The market held in quite well, even though we have had as much cold water poured on Emu as we are likely to get," Mr Adams said. "There was a sharp setback at the open, it gained confidence during the morning and that turned into buying in the afternoon."

The December gilt contract settled ¾ lower at 118$\frac{10}{32}$ after touching a low for the day of 117¾, with more than 136,000 contracts traded on the London International Financial Futures Exchange.

Analysts said the Emu issue was likely to be negative for gilts in the short term. Stephen Yorke, economist at SBC Warburg Dillon Read, noted that the market had been expecting sterling to be part of the single currency within a maximum of three years. Now such a scenario was no longer likely, the exchange rate risk attached to sterling would make gilts less attractive to foreign investors.

GERMAN BUNDS posted good gains in fairly quiet trading as fears of a rise in German interest rates abated. The December bund futures contract settled at 101.98, close to the day's high – and resistance level – of 102.03, and 0.22 higher than its previous close.

Julian Jessop, European economist at Nikko Europe, said bunds might gain in the short term from investors switching out of gilts, but that the real issue for Emu remained "whether the euro will be hard or soft".

Market attention is focused this week on the Bundesbank, which holds its regular council meeting on Thursday. Most analysts believe it will leave rates unchanged. The widely followed Ifo institute is also bringing out its latest survey of German business confidence.

ITALIAN BTPs ended marginally ahead but failed to hold their highs in quiet trading. The December contract settled at 111.88, up 0.06, with the spread over 10-year bunds at 54 points, up from 51 points.

Most attention is focused on preliminary inflation figures for October, which are due to be reported by Italian cities this week. The market is also following the debate on the 1998 budget, which is taking place in the Senate this week.

SPANISH BONOS were also higher, with the December futures contract settling up 0.12 at 103.15. Analysts said the market, which has drifted in recent sessions, was looking overbought at current levels and may have further to decline before buyers returned to push prices up again.

FRENCH BONDS saw selling in the 10-year end into German bunds, and one big seller – reported to have been the fund management arm of a big domestic bank – sent the market lower late in the session. The notional December futures contract settled 0.10 lower at 98.14.

US TREASURIES showed little change in morning trading. By early afternoon the 30-year Treasury bond had risen $\frac{1}{32}$ to 99$\frac{3}{32}$, sending the yield down to 6.429 per cent. The 10-year note was $\frac{1}{32}$ higher at 99$\frac{26}{32}$, yielding 6.145 per cent, while the two-year note slipped $\frac{1}{32}$ to 99$\frac{29}{32}$, yielding 5.896 per cent.

The market was quiet, in spite of a brief rise after overseas buying early in the morning. By midday there was little follow-through, however, and prices fell back to unchanged levels.

No significant economic data are expected this week. Figures on the August trade deficit and weekly reports on retail sales and jobless claims will be released today, with monthly jobless claims figures due on Thursday. The important employment cost index will be released next Monday.

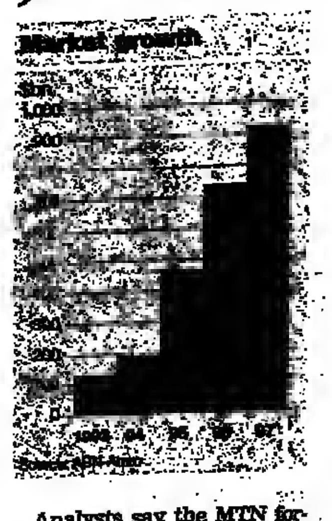
The bond market also awaits the next meeting of the Federal Open Market Committee in November.

"It's becoming more accepted that the Fed will raise the Fed funds rate by the end of the year," said Tom O'Connell, senior government trader at First Chicago Capital Markets.

That expectation is believed to be behind recent bond price declines, with traders pricing in the next rate rise.

Total MTNs outstanding near $1,000bn

By Edward Luce



Total outstanding bond issuance in Europe's medium-term note market is about to pass $1,000bn after explosive growth in the past three years.

From a base of less than $200bn in January 1994, the MTN market has become increasingly popular with borrowers as a more convenient and sophisticated way of tapping the eurobond market. Currently at $972bn, the market is expected to top $1,000bn within the next fortnight.

An MTN programme allows borrowers to by-pass costly and time-consuming documentation associated with issuing "stand-alone" bonds, by obtaining general clearance for all subsequent offerings in advance.

The cost of arranging an MTN programme is about $120,000, according to investment bankers, compared with $30,000 for an average stand-alone bond. Most MTN programmes involve more than four bond issues.

"The growth of the MTN market shows how sophisticated borrowers have become," said Peter van Dyck, global EMTN product manager at ABN Amro in London. "Having an MTN in place enables them to be far more flexible with their bond programmes."

For example, borrowers with an MTN programme can make a decision to tap the markets at very short notice, sometimes within hours, compared with a delay of several days for a stand-alone offering. This enables them to respond quickly to any changes in market conditions.

Analysts say the MTN formula, which was exported from the US market in the mid-1980s, is likely to become the dominant vehicle for issuers in the eurobond and global bond markets.

At present, less than one-third of the $3,000bn in outstanding eurobonds has been issued under MTN programmes. The proportion, however, is growing.

"We expect about 90 per cent of borrowers to move to MTN programmes," said Tony Wilson, executive director at Daiwa in London. "For regular issuers, it makes immense sense. Only the occasional borrower will continue under the stand-alone format."

The growth in the MTN market has been fuelled by the increasingly popularity of privately-placed bonds, which account for around 40 per cent of MTN offerings in volume terms. They are tailored to the needs of a single large investor. Unlike public bonds, privately-placed bonds are not usually listed and do not trade on the secondary markets.

Petrobras makes debut foray into lira sector

INTERNATIONAL BONDS

By Edward Luce and Samer Iskandar

Petrobras, Brazil's state-owned oil company, yesterday tapped the lira market for the first time with a L260bn 10-year offering.

The bond, mainly aimed at retail investors, carries a 10 per cent coupon which will step down to 6⅛ per cent after 1999. It follows several other lira-denominated issues by Brazilian borrowers, including a L170bn offering last month by Unibanco, the privatised bank, and a sovereign euro-tributary bond earlier this year.

Chase Manhattan, bookrunner of the Petrobras deal, said the lira was still popular with investors after its recent convergence rally.

SUDWEST LB, the German Landesbank, issued its first bond in six months – a DM500m offering. Barclays, joint lead manager with SBC Warburg, said the launch was timed to coincide with about DM10bn of redemptions in five-year bonds over the next few weeks.

The borrower opted for a seven-year maturity – giving it a spread of seven basis points over the German yield curve – to offer investors a 40 basis point pick-up over the five-year maturity. Südwest LB's last D-Mark issue was launched in April at eight basis points over the five-year bund.

Activity in the dollar sector was subdued but several issues were launched, mainly by banks and financial institutions, in D-Marks and French francs.

Elsewhere, STOCKHOLM tapped the Swiss franc sector with a small issue maturing in 2004, via Deutsche Morgan Grenfell as lead manager.

● MGTS, the Moscow telephone company, was awarded a BB– rating by Standard & Poor's, the US credit rating agency, ahead of the launch of its first eurobond. The rating is equivalent to that of Russia's sovereign debt.

Vladimir Lagutin, director general of MGTS, said the rating was "positive news" and showed that the company had "made great strides toward improving its disclosure and maximising value to shareholders". Credit Suisse First Boston and Salomon Brothers will be joint lead managers for the bond offering, with an expected amount of between $100m and $150m.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Energie Beheer Nederland	200	6.25	99.56R	Nov 2002	0.25R	+20(5⅞%-02)	Tokyo-Mitsubishi Intl
Emiskbank	150	6.75#	99.48R	Nov 2000	1.00R	+30(6%Aug00)	UBS
Vigoria‡+	50	(a1)§	99.8727R	Oct 2005	0.65R	+38(6%Aug00)	BankBoston
D-MARKS							
Banco Bozano	500	6.25	99.60R	Nov 2005	1.00R	+27(6%-05)	Commerzbank
Südwest LB Capital Markets	300	6.50	99.78R	Nov 2004	0.30R	+7(6¾%Sep04)	Barclays/SBC Warburg
Trinkaus & Burkhardt Finance	300	5.375	101.48	Nov 2002	2.00	-	HSBC Trinkaus
FRENCH FRANCS							
Bayerische Hypo	2bn	5.375	99.555R	Nov 2003	0.30R	+18	BNP/CDC Marchés
Lehman Brothers Holdings‡	1bn	(b)	99.771R	Oct 2002	0.35	-	Banque Lehman Brothers
SWISS FRANCS							
City of Stockholm(e)	100	3.50	102.10	Dec 2004	2.50	-	Deutsche Morgan Grenfell
ITALIAN LIRE							
Deutsche Finance(Neth)	300bn	(c)	102.125	Nov 2003	2.125	-	Deutsche Morgan Grenfell
Petrobras	260bn	(d)	99.60R	Nov 2007	0.45R	+14(6¾%-07)	Chase Manhattan Intl

Final terms, non-callable unless stated. Yield spread (over govt bond) at launch supplied by lead manager. +Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: Fixed re-offer price; fees shown at re-offer level. a) Callable & puttable on 24/10/00 & 24/10/02 at par. a1) 9⅝% to 24/10/00, then 10% to 24/10/02, then 10⅝%. b) 3-mth Pibor +25bp. c) 6⅛% to 11/99, then 6⅛%. Short 1st & last coupons. d) 10% to 5/11/99, then 6⅛%. § Over interpolated yield. e) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Oct 20	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	03/99	6.250	101.7929	4.90	-0.08	-0.24	+0.22	-1.84
	10/07	10.000	127.6146	6.21	-0.05	-0.25	+0.05	-1.38
Austria	08/99	7.000	104.0100	4.75	-0.01	+0.19	+0.48	+1.16
	07/07	5.625	99.3900	5.70	-0.04	+0.07	+0.11	-0.34
Belgium	04/99	7.000	103.4200	4.59	-0.03	+0.14	+0.53	+1.20
	03/07	6.250	103.2200	5.79	-0.01	+0.10	+0.14	-0.29
Canada	03/99	4.000	100.0100	3.99	-0.03	+0.02	-0.11	-0.38
	06/07	7.250	111.0200	5.72	-0.03	+0.02	-0.04	-0.78
Denmark	12/99	6.000	101.8400	5.06	-	+0.20	+0.40	+0.88
	11/07	7.000	105.6200	6.19	-0.08	+0.12	+0.09	-0.62
Finland	01/99	11.000	107.7581	4.34	-0.04	+0.04	+0.23	+0.69
	04/06	7.250	108.9003	5.88	+0.02	+0.10	-0.10	-0.61
France	11/99	7.000	104.6000	4.60	-0.01	+0.17	+0.48	+0.78
	10/04	9.750	107.5400	5.43	-0.02	+0.12	+0.32	-0.02
	10/07	5.500	98.4900	5.70	-0.03	+0.10	+0.22	-0.24
	10/25	6.000	97.1100	6.22	-0.02	+0.10	+0.08	-0.59
Germany	08/99	3.500	98.5100	4.45	-0.01	+0.17	-0.48	+0.98
	07/04	9.750	107.2900	5.42	-0.04	+0.10	+0.24	-0.19
	07/07	6.000	102.4500	5.68	-0.03	+0.07	+0.11	-0.31
	07/27	6.500	103.6800	6.21	-0.02	+0.08	+0.01	-0.61
Ireland	04/99	6.250	100.7700	5.65	+0.05	+0.15	-0.27	-0.23
	08/06	8.000	112.5500	6.11	+0.02	+0.07	+0.03	-0.83
Italy	05/00	6.000	101.4200	5.39	-	+0.05	+0.02	-1.93
	05/02	6.250	102.3100	5.67	-0.01	+0.07	-0.08	-1.98
	07/07	6.750	104.5800	6.11	-0.01	+0.02	-0.01	-2.13
	11/26	7.250	108.2800	6.61	-	-0.01	-0.12	-2.16
Japan	06/99	4.800	107.0800	0.49	+0.01	-0.02	+0.01	-0.48
	12/02	4.800	117.4000	1.29	-0.04	-0.08	-0.19	-0.88
	09/05	3.000	108.6700	1.79	-0.04	-0.02	-0.22	-1.02
	03/17	3.500	113.6600	2.80	-0.06	-0.03	-0.25	-0.85
Netherlands	06/99	7.500	104.5900	4.52	-0.03	+0.17	+0.41	+1.08
	02/07	5.750	100.6300	5.66	-0.02	-0.09	+0.15	-0.20
New Zealand	02/00	6.500	99.1868	6.87	+0.04	+0.03	+0.05	-0.27
	11/06	8.000	108.5072	6.71	+0.05	-0.06	+0.09	-0.78
Norway	01/99	9.000	105.3243	4.57	+0.01	+0.16	+0.15	-0.87
	01/07	6.750	106.3928	5.83	-	+0.09	-0.01	-0.93
Portugal	03/99	8.500	104.4000	5.16	-0.03	-0.06	-0.10	-1.60
	02/07	6.625	104.0200	6.04	-	-	-0.02	-1.60
Spain	07/98	7.400	103.9672	4.98	-0.02	+0.09	+0.14	-1.64
	03/07	7.350	109.5363	5.99	-0.02	+0.05	-0.03	-1.79
Sweden	01/99	11.000	106.6050	5.17	-0.02	+0.23	+0.32	-0.51
	08/07	6.000	111.3580	6.40	+0.02	-0.16	+0.09	-1.04
Switzerland	03/99	4.000	102.7013	1.98	-0.08	-0.06	+0.23	+0.01
	06/07	4.500	107.0380	3.62	-0.01	+0.04	-0.13	-0.26
UK	08/99	6.000	98.4688	6.91	-0.05	-0.04	-0.07	+0.55
	11/04	6.750	100.5781	6.64	+0.11	+0.13	-0.09	-0.61
	12/07	7.250	104.8750	6.58	+0.09	+0.14	-0.08	-0.96
	06/21	8.000	117.6641	6.52	+0.04	+0.08	-0.08	-1.41
US	07/99	5.875	99.9360	5.91	-	-0.08	+0.09	+0.04
	05/04	7.250	105.8200	6.16	-0.01	+0.04	+0.09	-0.09
	08/07	6.125	99.7970	6.15	-0.01	+0.01	+0.05	-0.35
	08/27	6.375	99.2623	6.43	-0.01	-0.01	+0.08	-0.37
ECU	03/99	5.000	100.2100	4.82	-0.02	+0.08	+0.31	+0.65
	04/07	5.500	97.4600	5.85	-	+0.08	+0.12	-0.43

London closing. *New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Oct 20	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	6.20	+0.54	+0.05
Austria	5.70	+0.04	-0.45
Belgium	5.79	+0.13	-0.36
Canada	5.72	+0.06	-0.43
Denmark	6.19	+0.53	+0.04
Finland	5.88	+0.22	-0.27
France	5.70	+0.04	-0.45
Germany	5.66	-	-0.49
Ireland	6.11	+0.45	-0.04
Italy	6.11	+0.45	-0.04
Japan	1.79	-3.87	-4.36
Netherlands	5.66	-	-0.49
New Zealand	6.71	+1.05	+0.56
Norway	5.83	+0.17	-0.32
Portugal	6.04	+0.38	-0.11
Spain	5.99	+0.33	-0.16
Sweden	6.40	+0.74	+0.25
Switzerland	3.62	-2.04	-2.53
UK	6.58	+0.92	+0.43
US	6.15	+0.49	-
ECU	5.85	+0.19	-0.30

Source: Interactive Data/FT Information
London closing. * New York closing.
Annualised yield basis.

EMERGING MARKET BONDS

Oct 20	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	97.9808	7.56	+0.03	-0.02	+1.48
Poland	07/00	7.750	BBB-	102.6094	6.65	+0.05	+0.09	+0.70
Russia	11/01	9.250	BB-	104.0883	8.03	-0.01	-0.32	+2.02
LATIN AMERICA								
Argentina	01/17	11.375	BB	115.9360	9.53	+0.02	+0.03	+3.24
Brazil	11/01	8.875	BB-	102.9416	7.99	+0.05	+0.06	+1.96
Mexico	01/07	9.875	BB	107.7851	8.63	+0.03	-0.08	+2.48
ASIA								
China	07/06	7.750	BBB+	104.9194	7.06	-0.07	-0.01	+0.93
Philippines	10/19	8.750	BB+	99.1718	8.84	-	+0.04	+2.56
Thailand	04/07	7.750	A-	97.6890	9.10	-0.01	+0.24	+1.95
AFRICA/MIDDLE EAST								
Lebanon	07/00	8.125	BB-	103.1593	7.79	+0.12	-0.08	+1.84
South Africa	12/99	9.625	BB+	105.4036	6.86	+0.08	-	+0.97
Turkey	06/02	10.000	B	105.0439	8.64	+0.04	-0.08	+2.57
BRADY BONDS								
Argentina	03/23	5.500	BB	75.0946	8.33	+0.04	+0.02	+1.96
Brazil	04/24	5.250	BB-	73.8558	8.40	-0.02	+1.99	+2.01
Mexico	12/19	6.250	BB	82.4840	7.94	+0.02	+0.03	+1.62
Venezuela	03/20	6.750	B+	86.2606	8.09	+0.04	+0.17	+1.76

London closing. Prices in US$. Source: Interactive Data/FT Information.
Standard & Poor's ratings.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	98.22	98.14	-0.10	98.40	98.06	66,827	122,822
Mar	97.72	97.62	-0.10	97.78	97.62	40	7,670
Jun	97.28	97.19	-0.10	97.28	97.26	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Nov	CALLS Dec	CALLS Mar	PUTS Nov	PUTS Dec	PUTS Mar
97	-	1.54	-	0.07	0.31	0.84
98	0.54	0.84	1.07	0.30	0.60	1.35
99	0.13	0.33	0.68	0.88	1.08	1.92
100	0.01	0.14	0.37	1.77	1.90	-
101	-	0.15	0.19	2.76	2.90	-

Est. vol. total, Calls 28,387 Puts 61,772. Previous day's open int., Calls 80,419 Puts 86,923.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	101.65	101.98	+0.22	102.03	101.65	124836	285864
Mar	101.26	101.27	+0.23	101.26	101.15	1242	8263

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	CALLS Mar	PUTS Nov	PUTS Dec	PUTS Jan	PUTS Mar
10150	0.57	0.80	0.73	1.07	0.09	0.42	0.96	1.30
10200	0.24	0.60	0.52	0.84	0.26	0.62	1.25	1.57
10250	0.07	0.37	0.36	0.84	0.59	0.89	1.59	1.87

Est. vol. total, Calls 22754 Puts 23451. Previous day's open int., Calls 242699 Puts 307448

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	102.68	102.83	+0.15	102.90	102.66	93,285	257,611
Mar	102.68	102.11	+0.04	102.08	102.02	4,153	3,807

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	111.85	111.88	+0.06	112.01	111.75	20588	111806
Mar		111.83	+0.06			0	1424

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Dec	CALLS Mar	PUTS Dec	PUTS Mar
11150	0.94	1.58	0.58	1.25
11200	0.66	1.31	0.78	1.48
11250	0.43	1.08	1.05	1.75

Est. vol. total, Calls 2840 Puts 1382. Previous day's open int., Calls 123409 Puts 110086

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	103.15	103.15	+0.12	103.19	102.97	39,770	79,988
Mar	-	102.88	+0.13	-	-	-	50

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	117-29	118-10	-0-24	118-14	117-12	145890	192487
Mar	117-24	118-07	-0-24	118-08	117-24	2515	13817

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	CALLS Mar	PUTS Nov	PUTS Dec	PUTS Jan	PUTS Mar
118	0-37	1-10	1-31	2-03	0-17	0-54	1-17	1-63
119	0-09	0-42	1-02	1-36	0-53	1-22	1-52	2-22
120	0-02	0-24	0-44	1-10	1-46	2-04	2-30	2-60

Est. vol. total, Calls 9447 Puts 5593. Previous day's open int., Calls 63752 Puts 38698

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	97.50	97.32	-0.14	97.54	97.32	183	4,527

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	114-27	114-28	+0-01	115-03	114-22	518,018	639,501
Mar	114-22	114-20	+0-03	114-24	114-20	1,217	66,815
Jun	-	114-06	-	-	-	153	8,275

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	129.60			129.82	129.55	2009	n/a
Mar	128.75			128.81	128.75	203	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

US CORPORATE BONDS

Oct 17	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	103.1917	6.44	+0.07	+0.08	+0.37
NY Tel	08/25	7.00	A+	96.0194	7.33	+0.06	+0.06	+0.89
CWE	05/08	8.00	BBB	107.0255	7.04	+0.07	+0.07	+0.89
FINANCIALS								
GECC	05/07	8.75	AAA	114.7200	6.64	+0.07	+0.07	+0.49
Banc One	08/02	7.25	A+	102.9342	6.52	+0.08	+0.09	+0.45
US West	01/07	7.30	BBB+	102.0814	6.98	+0.07	+0.13	+0.83
INDUSTRIALS								
WMX Tech	04/99	6.25	A-	100.0698	6.19	+0.04	+0.06	+0.31
Wal Mart	05/02	8.75	AA	101.3782	6.39	+0.07	+0.09	+0.32
Dayton Hud	06/21	8.70	BBB+	125.2015	7.42	+0.07	+0.11	+0.98
AGENCIES								
FHLMC	04/07	7.14	N/A	104.9118	6.43	+0.07	+0.06	+0.28
SLMA	03/00	7.50	N/A	103.1881	6.03	+0.07	+0.09	+0.08
FNMA	02/19	8.95	N/A	123.0368	6.83	+0.07	+0.07	+0.39
FFCB	08/06	8.95	N/A	116.8099	6.40	+0.07	+0.07	+0.25
HIGH YIELD								
Stone Cont	02/01	9.88	B	102.3750	0.00	-	-	-
AK Stl	12/01	9.13	BB-	105.2500	0.00	-	-	-
Pacalta	06/04	10.75	B-	104.7500	0.00	-	-	-

New York closing. Source: Interactive Data/FT Information.
Standard & Poor's ratings. Yields: semi-annual basis.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	5.90
Prime rate	8½	Two month	-	Three year	5.97
Broker loan rate	7¼	Three month	5.08	Five year	6.08
Fed.funds	5⅝	Six month	5.31	10-year	6.16
Fed.funds at intervention	-	One year	5.55	30-year	6.44

INTERNATIONAL BONDS

Oct 20	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO-DM								
EIB	02/07	5.750	AAA	100.1900	5.72	-0.03	+0.13	+0.06
Spain	01/07	5.750	AA	99.6000	5.80	-0.09	+0.19	+0.14
Philip Morris	03/04	5.375	A	97.8000	5.83	+0.02	+0.31	+0.41
ABN Amro	03/05	3.625	n/a	99.5001	5.69	+0.04	+0.21	+0.15
EURO-FFR								
Austria	01/04	5.600	AAA	100.2100	5.45	-0.04	+0.35	+0.02
Abbey Nat	02/04	6.000	AA	102.5000	5.61	-0.04	+0.33	+0.08
Cred Foncier	02/04	9.125	A	117.1400	5.80	-0.03	+0.52	+0.37
Abbey Nat	03/06	4.610	AAr	99.8426	4.53	-0.02	+0.23	-1.07
EURO-STERLING								
EIB	02/07	7.000	AAA	106.6000	6.06	-0.02	-0.09	-0.08
Abbey Nat	02/02	6.800	AA	103.9000	5.74	+0.08	+0.02	-0.05
Walt Disney	08/00	8.625	A	106.5000	5.89	-0.05	+0.02	+0.46
Abbey Nat	08/07	8.000	AAr	103.6141	6.99	-0.07	-0.16	+0.66
[illegible]								
EIB	12/07	7.625	AAA	105.6468	6.83	+0.09	-0.07	+0.25
Dresdner Bk	12/07	7.750	AA	103.6867	7.22	+0.09	-0.10	+0.64
RBS	01/07	8.375	A+	106.7280	7.34	+0.09	-0.13	+0.78
Abbey Nat	02/02	7.400	AA	98.8493	6.74	+0.15	-0.09	+0.03
[illegible]								
EIB	04/07	7.250	AAA	104.4953	6.59	-0.01	+0.13	+0.44
ABN Amro	06/07	7.125	AA-	102.1864	6.81	-	+0.08	+0.66
Quebec	01/07	7.000	A+	101.4196	6.79	+0.07	+0.05	+0.64
Citicorp	02/04	6.781	A+	99.1836	5.94	+0.03	+0.28	-0.16
[illegible]								
Bayer L-Bk	08/04	9.500	AAA	120.1655	5.82	+0.05	-0.06	+0.09
Toronto	05/04	8.500	AA+	114.2748	5.82	+0.06	-0.06	+0.09
Bell Canada	07/99	10.625	A+	109.1834	4.92	+0.04	+0.20	-0.02
Deutsche Bk	09/02	5.875	AAA	101.8005	5.45	+0.04	+0.02	-0.09
[illegible]								
World Bank	03/02	5.250	AAA	117.6400	1.14	-0.08	-0.14	+0.02
Spain	03/02	5.750	AA	119.4500	1.20	-0.02	-0.15	+0.08
Cred Foncier	08/02	4.750	A	114.3211	1.82	-0.02	-0.12	+0.50
Italy	07/98	0.703	AA	100.6240	0.13	-	-0.01	-0.36

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Mon Oct 20	Day's change %	Fri Oct 17	Accrued interest	xd adj. ytd
1 Up to 5 years (20)	120.11	-0.22	120.38	2.54	8.29
2 5-15 years (20)	157.18	-0.57	158.08	3.00	9.03
3 Over 15 years (4)	188.89	-0.48	189.58	3.72	9.77
4 Irredeemables (6)	228.55	-0.32	229.29	4.50	8.50
5 All stocks (48)	150.47	-0.42	151.11	3.01	9.03
Index-linked					
5 Up to 5 years (2)	209.87	-0.13	209.95	0.30	6.09
7 Over 5 years (10)	211.12	-0.23	211.60	1.29	5.21
9 All stocks (12)	209.69	-0.22	210.17	1.22	5.11

UK Indices

	Low coupon yield Oct 20	Oct 17	Yr. ago	Medium coupon yield Oct 20	Oct 17	Yr. ago	High coupon yield Oct 20	Oct 17	Yr. ago
5 yrs	6.66	6.55	6.98	6.79	6.67	7.04	6.82	6.69	7.09
15 yrs	6.58	6.49	7.79	6.59	6.53	7.81	6.66	6.61	7.83
20 yrs	6.58	6.49	7.90	6.57	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Irred.†	6.66	6.64	7.95						

	Inflation 5% Oct 20	Oct 17	Yr. ago	Inflation 10% Oct 20	Oct 17	Yr. ago
Up to 5 yrs	3.22	3.17	3.07	2.48	2.43	2.37
Over 5 yrs	3.22	3.20	3.58	3.01	2.98	3.33

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Oct 20	Oct 17	Oct 16	Oct 15	Oct 14	Yr ago	High*	Low*
Govt. Secs. (UK)	99.75	100.11	100.13	100.57	100.57	93.90	101.83	93.31
Fixed Interest	132.37	132.58	132.78	132.74	132.78	115.45	133.54	115.32

© FTSE International Ltd 1997. All rights reserved. * for 1997. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

♦ "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real redemption yields are calculated by HSBC Greenwell from Bank of England closing prices. § Indicative price.

CURRENCIES AND MONEY

UK's shift on Emu strengthens pound

MARKETS REPORT

By Simon Kuper

The pound rose against the D-Mark yesterday after the UK government indicated it would probably decide only after the general election whether or not to join European monetary union.

The election is likely to be held in 2001 or 2002. The government seems to have dropped plans, revealed in the Financial Times on September 26, to adopt a more positive line on Emu. The FT's report had created a belief that the UK would join Emu soon. That had hit the pound, as traders thought that if it joined the euro it would do so at a rate of about DM2.60 to the D-Mark, well below its present level.

Sterling rose 2.8 pfennigs against the D-Mark and 1.4 cents to the dollar yesterday, closing in London at DM2.888 and $1.631. It had gained 3.4 pfennigs on Friday, before the Emu news.

The dollar was barely higher against the D-Mark at DM1.771, but it rose Y1.2 against the yen to Y121.3. It was buoyed by the easing of trade tensions between Washington and Tokyo, as Japan's trade surplus for September rose by a smaller than expected 37 per cent.

Furthermore, the market expects today's Japanese fiscal stimulus package to be modest and short on tax cuts. Taku Yamasaki, head of the policymaking board of Japan's ruling Liberal Democratic Party, said 90 per cent of the package – aimed at reviving the stricken economy – would consist of deregulation measures. The US has long been pressing Japan to deregulate its economy and thus raise imports. If Japan does deregulate, that could reduce the prospect of the US trying to raise Japanese imports by boosting the yen.

The Malaysian ringgit, Thai baht and Taiwan dollar took another hammering.

■ The UK's new line on Emu changed the outlook for base rates. Were the UK to join Emu, base rates would have to fall from their present 7 per cent towards the average level of about 4.5 per cent prevailing in the Emu-zone. The news that the UK is unlikely to join soon therefore caused the market to revise upwards its forecasts of future base rates. Short sterling futures contracts slumped to reflect this. The December 1998 contract lost 10 basis points to price in rates of almost 7.25 per cent. The September 2000 contract fell 22 basis points to price in rates of about 6.75 per cent.

■ The Irish punt rose more than the pound on the UK's Emu news. The punt gained 3.3 pfennigs to DM2.610 against the D-Mark, nearly 9 per cent above its central rate within the European exchange-rate mechanism of DM2.41. Traders say Ireland may now have to ravalue the central rate. If the pound trades strongly for years, it could drag the punt up too.

■ The baht fell from Bt36.80 to Bt37.67 against the dollar as the Thai government failed to find a replacement for Thanong Bidaya as finance minister, and thousands took to the streets to tell Chavalit Yongchaiyudh, prime minister, to resign. An early election is possible.

The ringgit fell from M$3.22 to M$3.3275 against the dollar on the view that Friday's budget did not address the country's economic problems.

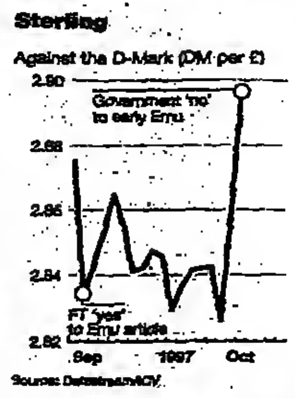
On Friday the Taiwan dollar became the latest Asian currency to be floated, after the central bank gave up its defence. It immediately fell more than 4 per cent against the dollar, and yesterday lost another 2.3 per cent to close at a 10-year low of T$30.34.

■ Paul Chertkow, global head of currency research at UBS in London, said that now the pound is out of Emu for the mean time, it will rise on any fears for a weak euro. A shaky Italian budget could boost it, for instance.

Stephen Yorke, director of political research at SBC Warburg in London, agreed. He also noted that the Bank of England, in setting monetary policy, would not have to worry about making base rates converge with lower rates in Europe. That removed one downward force on UK rates.

But Tony Norfield, treasury economist at ABN-Amro in London, still expects the pound to fall to DM2.60 by the middle of 1998, as he thinks German interest rates will rise by more than base rates. "The cyclical fundamental trends have not changed," he said.

Sterling



Source: Datastream/ICV

■ Pound in New York

Oct 20	—Latest—	– Prev. close –
£ spot	1.6290	1.6160
1 mth	1.6258	1.6160
3 mth	1.6176	1.6120
1 yr	1.6070	1.5970

■ OTHER CURRENCIES

Oct 20	£	$
Czech Rp	53.8422 - 53.9339	33.0320 - 33.0680
Hungary	320.817 - 321.095	196.820 - 196.870
Iran	4890.00 - 4890.00	3000.00 - 3000.00
Kuwait	0.4957 - 0.4962	0.3041 - 0.3042
Poland	5.5387 - 5.5487	3.3980 - 3.4020
Russia	9560.17 - 9557.58	5859.00 - 5860.00
U.A.E.	5.9867 - 5.9907	3.6728 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Oct 20		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.3292	+0.201	176 - 407	20.3879	20.2069	20.2748	3.2	20.1621	3.3	19.6568	3.3	102.4
Belgium	(BFr)	59.5822	+0.5787	113 - 131	59.7500	59.3840	59.3822	3.6	59.0122	3.7	57.2822	3.9	102.7
Denmark	(DKr)	11.0014	+0.1082	952 - 076	11.0825	10.8776	10.9669	3.4	10.9059	3.5	10.6144	3.5	104.0
Finland	(FM)	8.6453	+0.0641	406 - 500	8.6920	8.6290	8.62	3.5	8.5675	3.6	8.3548	3.4	81.3
France	(FFr)	9.6836	+0.0937	781 - 890	9.7165	9.6638	9.6508	4.1	9.5936	3.7	9.3181	3.8	106.3
Germany	(DM)	2.8883	+0.0286	867 - 898	2.8978	2.8819	2.879	3.9	2.8599	3.8	2.7731	4.0	103.0
Greece	(Dr)	452.448	+3.796	113 - 782	456.305	451.668	454.231	-4.7	456.855	-3.9	465.223	-2.8	65.8
Ireland	(I£)	1.1065	+0.0033	052 - 078	1.1181	1.1012	1.106	0.5	1.1046	0.7	1.0938	1.2	97.7
Italy	(L)	2820.52	+27.56	909 - 196	2825.91	2812.81	2820.45	0.0	2820.68	0.0	2816.23	0.1	76.2
Luxembourg	(LFr)	59.5822	+0.5787	113 - 131	59.7500	59.3840	59.3822	3.8	59.0122	3.7	57.2822	3.9	102.1
Netherlands	(Fl)	3.2543	+0.0323	525 - 561	3.2637	3.2446	3.2441	3.8	3.2232	3.8	3.1272	3.9	101.3
Norway	(NKr)	11.5810	+0.1197	733 - 886	11.6378	11.4678	11.5485	3.4	11.4875	3.2	11.2185	3.1	100.0
Portugal	(Es)	294.256	+2.835	085 - 426	295.063	293.610	294.1	0.6	293.57	0.9	289.482	1.6	91.9
Spain	(Pta)	243.580	+2.225	473 - 686	244.430	243.250	243.265	1.8	242.515	1.7	238.145	2.2	77.0
Sweden	(SKr)	12.4011	+0.06	932 - 090	12.4779	12.3742	12.3736	2.7	12.3181	2.8	12.0588	2.6	86.9
Switzerland	(SFr)	2.3995	+0.0177	981 - 008	2.4113	2.3873	2.3886	5.5	2.366	5.6	2.2658	5.6	105.2
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	101.5
Ecu	-	1.4661	+0.0117	652 - 670	1.4700	1.4642	1.4628	2.7	1.4558	2.9	1.4218	3.0	-
SDR†	-	1.182800	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6297	+0.0136	292 - 302	1.6341	1.6257	-	-	-	-	-	-	-
Brazil	(R$)	1.7934	+0.0156	927 - 941	1.7974	1.7892	-	-	-	-	-	-	-
Canada	(C$)	2.2586	+0.0173	574 - 598	2.2681	2.2539	2.2517	3.6	2.2381	3.6	2.1872	3.2	84.7
Mexico	(New Peso)	12.5956	+0.0682	836 - 076	12.6593	12.5765	-	-	-	-	-	-	-
USA	($)	1.6305	+0.0136	300 - 310	1.6350	1.6265	1.6282	1.7	1.6243	1.5	1.6088	1.3	105.3
Pacific/Middle East/Africa													
Australia	(A$)	2.2318	+0.0268	304 - 333	2.2369	2.2243	2.2283	2.0	2.2199	2.2	2.1829	2.2	92.2
Hong Kong	(HK$)	12.6266	+0.1122	219 - 313	12.6529	12.5956	12.6256	0.1	12.6191	0.2	12.5641	0.5	-
India	(Rs)	59.0566	+0.5155	979 - 156	59.1320	58.9380	59.252	-4.0	59.6526	-4.0	61.3323	-3.9	-
Israel	(Shk)	5.7506	+0.0362	407 - 604	5.7693	5.7385	-	-	-	-	-	-	-
Japan	(Y)	197.780	+3.58	638 - 922	198.250	196.350	196.76	6.2	194.735	6.2	185.75	6.1	128.5
Malaysia	(M$)	5.4263	+0.1836	165 - 361	5.4653	5.2936	5.4306	-0.9	5.4388	-0.9	5.4572	-0.6	-
New Zealand	(NZ$)	2.5380	+0.017	362 - 397	2.5478	2.5307	2.5412	-1.5	2.545	-1.1	2.5456	-0.3	108.3
Philippines	(Peso)	55.3861	+0.7385	896 - 866	56.4396	55.0895	55.548	-3.5	55.7974	-3.0	56.8544	-2.6	-
Saudi Arabia	(SR)	6.1152	+0.0512	132 - 172	6.1319	6.1004	6.1117	0.7	6.1033	0.8	6.0868	0.8	-
Singapore	(S$)	2.5538	+0.0379	518 - 558	2.5561	2.5377	2.5482	2.2	2.5391	2.3	2.4909	2.5	-
South Africa	(R)	7.6328	+0.0625	480 - 575	7.6894	7.6435	7.7135	-9.5	7.6914	-9.3	8.2683	-8.0	-
South Korea	(Won)	1507.40	+27.96	286 - 194	1512.07	1489.80	-	-	-	-	-	-	-
Taiwan	(T$)	49.8534	+2.809	351 - 717	50.0804	48.5366	49.8963	0.4	49.797	0.5	49.5994	0.5	-
Thailand	(Bt)	61.5515	+1.97	696 - 334	62.2610	60.4770	61.8861	-6.6	62.3407	-5.2	63.3799	-3.0	-

† Rates for Oct 17. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Oct 20		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.4681	+0.0191	648 - 713	12.5080	12.4530	12.4441	2.3	12.3951	2.3	12.1711	2.4	102.1
Belgium	(BFr)	36.5300	+0.0495	100 - 500	36.6400	36.4860	36.455	2.5	36.3035	2.5	35.61	2.5	102.1
Denmark	(DKr)	6.7473	+0.0108	455 - 490	6.7687	6.7386	6.7356	2.1	6.7113	2.1	6.6049	2.1	103.5
Finland	(FM)	5.3023	+0.0051	010 - 035	5.3230	5.2980	5.2908	2.6	5.2671	2.7	5.1733	2.4	80.8
France	(FFr)	5.9390	+0.0077	375 - 405	5.9598	5.9310	5.9275	2.3	5.9036	2.4	5.7948	2.4	104.9
Germany	(DM)	1.7714	+0.0027	710 - 718	1.7770	1.7684	1.7676	2.6	1.7598	2.6	1.7248	2.9	102.7
Greece	(Dr)	277.490	+0.005	370 - 610	279.530	277.290	278.785	-5.6	280.84	-4.8	287.89	-3.8	65.2
Ireland	(I£)	1.4736	+0.0167	723 - 748	1.4808	1.4585	1.4728	0.6	1.4718	0.5	1.4723	0.1	-
Italy	(L)	1729.85	+2.44	950 - 020	1733.14	1725.90	1731.62	-1.2	1734.82	-1.1	1738.05	-0.5	78.1
Luxembourg	(LFr)	36.5300	+0.0495	100 - 500	36.6400	36.4860	36.455	2.5	36.3035	2.5	35.61	2.5	102.1
Netherlands	(Fl)	1.9959	+0.0031	954 - 964	2.0025	1.9902	1.9916	2.6	1.9831	2.6	1.9454	2.5	101.3
Norway	(NKr)	7.1027	+0.014	002 - 052	7.1323	7.0402	7.0882	2.4	7.0598	2.4	6.9481	2.2	99.5
Portugal	(Es)	180.470	+0.23	420 - 520	180.930	180.150	180.434	0.2	180.38	0.2	179.21	0.7	92.5
Spain	(Pta)	149.390	+0.115	370 - 410	149.830	149.260	149.345	0.4	149.17	0.6	147.995	0.9	76.8
Sweden	(SKr)	7.6057	-0.0271	032 - 082	7.6575	7.5933	7.5965	1.4	7.5773	1.5	7.5003	1.3	86.1
Switzerland	(SFr)	1.4719	+0.0015	712 - 720	1.4788	1.4710	1.4663	4.4	1.4556	4.3	1.4101	4.2	105.0
UK	(£)	1.6305	+0.0136	300 - 310	1.6350	1.6265	1.6282	1.1	1.6243	1.5	1.6088	1.3	100.2
Ecu	-	1.1122	+0.0004	118 - 125	1.1126	1.1090	1.1137	-1.6	1.1169	-1.7	1.1324	-1.8	-
SDR†	-	0.73003	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9995	-	995 - 996	0.9995	0.9995	-	-	-	-	-	-	-
Brazil	(R$)	1.0998	+0.0003	996 - 000	1.1000	1.0995	-	-	-	-	-	-	-
Canada	(C$)	1.3852	-0.001	849 - 855	1.3861	1.3846	1.3821	2.7	1.3763	2.6	1.3558	2.1	84.5
Mexico	(New Peso)	7.7250	-0.023	200 - 300	7.7310	7.7190	7.8335	-16.9	8.0445	-16.5	8.855	-15.9	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	105.8
Pacific/Middle East/Africa													
Australia	(A$)	1.3688	+0.005	684 - 693	1.3687	1.3678	1.3682	0.5	1.3664	0.7	1.358	0.8	93.9
Hong Kong	(HK$)	7.7440	+0.004	435 - 445	7.7448	7.7382	7.7445	-0.1	7.7454	-0.1	7.7477	0.0	-
India	(Rs)	36.2200	+0.013	950 - 450	36.2470	36.1900	36.3575	-4.6	36.6425	-4.7	37.855	-4.5	-
Israel	(Shk)	3.5269	-0.0051	219 - 318	3.5377	3.5215	-	-	-	-	-	-	-
Japan	(Y)	121.300	+1.19	250 - 350	121.480	120.540	120.785	5.1	119.785	5.0	115.485	4.8	129.0
Malaysia	(M$)	3.3280	+0.0855	230 - 330	3.3480	3.2600	3.3325	-1.8	3.3415	-1.6	3.3715	-1.3	-
New Zealand	(NZ$)	1.5565	-0.0027	558 - 571	1.5583	1.5555	1.5573	+0.6	1.5597	+0.9	1.5698	-0.9	-
Philippines	(Peso)	33.9700	+0.17	200 - 200	34.7000	33.7000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.1505	-	504 - 506	3.7507	3.7503	3.7512	-0.2	3.7522	-0.2	3.7569	+0.2	-
Singapore	(S$)	1.5663	+0.0103	655 - 670	1.5675	1.5648	1.5646	1.3	1.5608	1.4	1.5413	1.6	-
South Africa	(R)	4.6935	-0.001	920 - 950	4.7060	4.6810	4.734	-10.4	4.8135	-10.2	5.116	-9.0	-
South Korea	(Won)	924.500	+9.5	000 - 000	928.000	918.900	-	-	-	-	-	-	-
Taiwan	(T$)	30.5755	+1.356	510 - 000	30.7210	29.7900	30.5865	-0.4	30.5955	-0.3	30.688	+0.4	-
Thailand	(Bt)	37.7500	+0.9	500 - 500	38.2000	36.6500	38.195	-14.1	38.9	-12.2	40.13	-6.3	-

† SDR rate per $ for Oct 17. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Oct 17: Base average 1990=100.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

October 20	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.30	-	4.75
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.75	6.25	6.62
Netherlands	3	3¾	[illegible]	[illegible]	[illegible]	-	2.75	3.30
Switzerland	1⅝	1⅝	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	5⅝	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅝	[illegible]	5¾	[illegible]	-	-	-
US Dollar CDs	-	5.46	5.52	5.61	5.75	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	3⅝	[illegible]	3⅞	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Oct 20	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	4⅛ - 3[illegible]	4[illegible] - 4	4⅛ - 4	4⅛ - 4	4¼ - 4⅛	4⅜ - 4¼
Danish Krone	[illegible] - 3½	[illegible]	3⅞ - 3¾	[illegible]	4¼ - [illegible]	[illegible]
German Mark	3⅜ - 3[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible] - 2⅞	[illegible]	[illegible]	[illegible]	[illegible]	[illegible] - 4⅛
French Franc	[illegible] - 3⅜	[illegible]	[illegible]	3¾ - 3⅝	[illegible] - 3¾	[illegible] - 4⅛
Portuguese Esc.	[illegible]	5½ - [illegible]	[illegible]	[illegible] - 5¼	[illegible] - 5⅛	[illegible]
Spanish Peseta	5[illegible] - 4[illegible]	5⅛ - [illegible]	5⅛ - 5[illegible]	[illegible] - 5	5[illegible] - 5	5 - 4[illegible]
Sterling	7¼ - 7⅛	[illegible] - 7⅛	[illegible]	7⅜ - 7[illegible]	[illegible]	[illegible]
Swiss Franc	1⅝ - 1⅛	[illegible] - 1⅝	[illegible]	[illegible]	2⅛ - 2	2⅜ - 2¼
Canadian Dollar	3⅝ - 3½	3⅝ - 3½	[illegible]	[illegible]	4⅛ - 3⅞	4½ - 4⅛
US Dollar	5[illegible] - 5[illegible]	[illegible]	5⅝ - 5½	[illegible]	5⅞ - [illegible]	[illegible]
Italian Lira	6¾ - 6½	[illegible]	[illegible]	[illegible]	[illegible] - 6⅛	[illegible]
Japanese Yen	½ - [illegible]	½ - [illegible]	½ - [illegible]	[illegible]	[illegible]	½ - [illegible]
Asian $Sing	1⅝ - 1½	3⅝ - 3¼	3½ - 3⅜	[illegible]	3⅞ - 3¾	4 - 3⅞

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.19	96.14	+0.01	96.18	96.13	7,192	41,241
Mar	95.81	95.76	+0.01	95.81	95.75	7,411	52,357
Jun	95.50	95.47	+0.01	95.51	95.47	4,754	31,096

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jan		96.07	+0.02			0	420
Mar	95.80	95.80	+0.03	95.83	95.77	29596	328656
Jun	95.50	95.51	+0.03	95.54	95.48	40215	273287
Sep	95.33	95.29	+0.02	95.33	95.28	11809	195632

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Nov		96.43	+0.02			0	80
Dec		96.12	+0.02			0	5914
Jan		96.18	+0.01			0	200
Feb		96.05	+0.02			0	50

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.97	93.81	-0.03	93.98	93.89	10290	109475
Mar	94.63	94.60	-0.01	94.65	94.57	6853	109416
Jun	95.01	94.96	-0.01	95.01	94.93	6741	92664
Sep	95.01	94.95	-0.01	95.01	94.92	2997	62279

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.96	97.96	+0.01	97.98	97.94	2964	83460
Mar	97.74	97.73	+0.01	97.74	97.71	2581	46049
Jun	97.50	97.50	+0.01	97.51	97.48	934	27234
Sep	97.32	97.32	+0.01	97.32	97.31	86	18331

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		99.47	-			0	n/a
Mar		99.44	+0.01			0	n/a
Jun		99.39	+0.02			0	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.35	95.38	+0.02	95.37	95.35	707	10737
Mar	95.22	95.23	+0.01	95.24	95.22	332	8349
Jun	95.14	95.15	+0.02	95.15	95.14	158	5871
Sep	95.06	95.07	+0.02	95.07	95.04	269	6185

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9375	0.25	0.90	1.24	0.09	0.05	0.03
9400	0.10	0.68	1.01	0.19	0.08	0.05
9425	0.04	0.48	0.78	0.36	0.13	0.07

Est. vol. total, Calls 2360 Puts 3895. Previous day's open int., Calls 232993 Puts 112870

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Oct 20		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.47	16.26	4.848	1.853	4735	5.464	19.44	494.0	409.0	20.82	4.028	1.679	3.792	2.737	332.1	2.461
Denmark	(DKr)	54.14	10	8.802	2.625	1.006	2564	2.958	10.53	267.5	221.4	11.27	2.181	0.909	2.053	1.482	178.8	1.333
France	(FFr)	61.51	11.36	10	2.983	1.143	2913	3.361	11.96	303.9	251.5	12.81	2.478	1.033	2.332	1.684	204.2	1.514
Germany	(DM)	20.62	3.809	3.353	1	0.383	976.5	1.127	4.010	101.9	84.33	4.294	0.831	0.346	0.782	0.565	68.48	0.508
Ireland	(I£)	53.83	9.943	8.752	2.610	1	2549	2.941	10.47	265.9	220.1	11.21	2.169	0.904	2.041	1.474	178.7	1.325
Italy	(L)	2.112	0.390	0.343	0.102	0.039	100	0.115	0.411	10.43	8.638	0.440	0.085	0.035	0.080	0.058	7.012	0.052
Netherlands	(Fl)	18.30	3.381	2.976	0.888	0.340	866.7	1	3.559	90.42	74.85	3.811	0.737	0.307	0.694	0.501	60.77	0.450
Norway	(NKr)	51.43	9.500	8.362	2.494	0.955	2435	2.810	10	254.1	210.3	10.71	2.072	0.863	1.950	1.408	170.6	1.266
Portugal	(Es)	20.24	3.739	3.291	0.982	0.376	958.5	1.106	3.936	100	82.78	4.214	0.815	0.340	0.768	0.554	67.21	0.498
Spain	(Pta)	24.45	4.517	3.976	1.186	0.454	1158	1.336	4.754	120.8	100	5.091	0.985	0.411	0.927	0.669	81.20	0.602
Sweden	(SKr)	48.03	8.871	7.809	2.329	0.892	2274	2.624	9.339	237.3	196.4	10	1.935	0.806	1.821	1.315	159.5	1.182
Switzerland	(SFr)	24.82	4.585	4.036	1.204	0.461	1175	1.356	4.827	122.6	101.5	5.168	1	0.417	0.941	0.680	82.43	0.611
UK	(£)	59.56	11.00	9.684	2.888	1.106	2821	3.254	11.58	294.3	243.6	12.40	2.399	1	2.259	1.631	197.8	1.466
Canada	(C$)	26.37	4.871	4.287	1.279	0.490	1249	1.441	5.126	130.3	107.8	5.491	1.062	0.443	1	0.722	87.57	0.649
USA	($)	36.53	6.747	5.939	1.771	0.679	1730	1.996	7.103	180.5	149.4	7.606	1.472	0.613	1.385	1	121.3	0.899
Japan	(Y)	30.12	5.562	4.896	1.460	0.559	1426	1.645	5.855	148.8	123.2	6.270	1.213	0.506	1.142	0.824	100	0.741
Ecu	-	40.63	7.504	6.606	1.970	0.755	1924	2.220	7.900	200.7	166.2	8.459	1.637	0.682	1.541	1.112	134.9	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.5752	0.5654	-0.0011	0.5670	0.5643	49,511	89,193
Mar	0.5683	0.5686	-0.0007	0.5687	0.5679	192	2,544
Jun	-	0.5715	-0.0004	-	0.5715	1	2,617

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8355	0.8304	-0.0050	0.8367	0.8296	19,726	65,075
Mar	0.8420	0.8420	-0.0048	0.8424	0.8420	60	917
Jun	-	0.8535	-0.0049	-	0.8535	2	165

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6817	0.6812	-0.0015	0.6840	0.6802	28,451	41,450
Mar	0.6863	0.6863	-0.0006	0.6883	0.6876	322	1,831
Jun	-	0.6955	-0.0001	-	-	3	287

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.6206	1.6284	+0.0144	1.6312	1.6148	10,174	30,905
Mar	1.6220	1.6238	+0.0152	1.6236	1.6220	3	257
Jun	-	1.6170	+0.0140	1.6170	-	-	27

EMS EUROPEAN CURRENCY UNIT RATES

Oct 20	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.796709	0.750785	-0.012429	-6.00	6.95	40
Finland	5.85424	5.89217	-0.01008	0.65	1.75	-4
Italy	1906.48	1922.84	+0.68	0.86	1.54	-8
Spain	163.826	166.307	+0.271	1.51	0.88	-11
Portugal	197.398	200.784	+0.38	1.71	0.69	-11
Denmark	7.34555	7.50781	-0.01498	2.21	0.20	-15
France	6.45863	6.60840	+0.01264	2.32	0.09	-19
Belgium	39.7191	40.6492	+0.0666	2.34	0.07	-17
Netherlands	2.18979	2.22091	+0.00427	2.36	0.05	-17
Germany	1.92573	1.97131	+0.00389	2.37	0.04	-23
Austria	13.5485	13.8748	+0.0269	2.41	0.00	-19
NON ERM MEMBERS						
Greece	295.269	308.869	-0.148	4.55	-2.05	-
UK	0.793103	0.682178	-0.007072	-13.99	16.06	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	PUTS Nov	PUTS Dec	PUTS Jan
1.610	1.75	2.31	2.78	1.18	1.91	2.80
1.620	1.24	1.82	2.37	1.68	2.44	3.14
1.630	0.71	1.41	1.87	2.30	2.98	3.72

Previous day's vol., Calls - Puts 10. Prev. day's open int., Calls 25,912 Puts 29,611

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	PUTS Nov	PUTS Dec	PUTS Jan
0.560	0.91	1.19	1.47	0.36	0.58	0.73
0.565	0.61	0.90	1.19	0.56	0.77	0.95
0.570	0.40	0.67	0.94	0.85	1.04	1.21

Previous day's vol., Calls 711 Puts 1,941. Prev. day's open int., Calls 9,940 Puts 33,084

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.10	94.10	-	94.11	94.09	128,225	585,401
Mar	94.00	94.00	-0.01	94.02	93.99	185,248	456,058
Jun	93.90	93.91	-0.01	93.93	-	116,807	346,066

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	95.05	95.07	+0.02	95.07	95.05	172	4,881
Mar	95.04	95.04	-0.02	95.04	95.04	155	4,249
Jun	-	95.00	+0.02	95.00	94.96	40	284

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	CALLS Mar	PUTS Nov	PUTS Dec	PUTS Jan	PUTS Mar
9575	0.39	0.40	0.14	0.19	0	0.01	0.09	0.13
9600	0.19	0.19	0.04	0.08	0.02	0.04	0.24	0.28
9625	0.01	0.03	0.02	0.01	0.12	0.14	0.47	0.46
9650	0	0	0.01	0	0.36	0.36	0.71	0.70
9675	0	0	0	0	0.61	0.61	0.95	0.95

Est. vol. total, Calls 2605 Puts 8881. Previous day's open int., Calls 343205 Puts 296365

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9800	0.12	0.12	0.10	0.18	0.39	0.60
9825	0.04	0.05	0.05	0.33	0.57	0.80

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 3125 Puts 2819

UK INTEREST RATES

LONDON MONEY RATES

Oct 20	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	-	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 7 per cent from Aug 7, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc. Ave. tender rate of discount on Oct 17, [illegible]pc. ECGD fixed rate Stg. Export Finance. Make up day Sep 30, 1997. Agreed rate for period Oct 26, 1997 to Nov 25, 1997, Scheme III 8.54pc. Reference rate for period Aug 30, 1997 to Sep 30, 1997, Scheme IV & V 7.284pc. Finance House Base Rate 7[illegible]pc from Oct 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.86	92.86	+0.01	92.88	92.86	[illegible]	[illegible]
Mar	92.80	92.63	+0.01	92.64	92.59	[illegible]	[illegible]
Jun	92.55	92.56	-	92.67	92.53	[illegible]	[illegible]
Sep	92.65	92.60	-0.06	92.71	92.60	[illegible]	[illegible]
Dec	92.75	92.61	-0.09	92.82	92.60	[illegible]	[illegible]

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9250	0.18	0.23	0.34	0.03	0.10	0.18
9275	0.04	0.10	0.20	0.13	0.22	0.29
9300	0	0.03	0.11	0.34	0.40	0.43

Est. vol. total, Calls 1051 Puts [illegible]. Previous day's open int., Calls [illegible] Puts [illegible]

BASE LENDING RATES

	%		%		%
Adam & Company	7.00	Exeter Trust Limited	8.00	•Singer & Friedlander	7.00
Allied Irish Bank (GB)	7.00	Financial & Gen Bank	8.00	•Smith & Williamson Secs	7.00
•Henry Ansbacher	7.00	•Robert Fleming & Co	7.00	Sun Banking Corp Ltd	7.00
Banco Bilbao Vizcaya	7.00	Girobank	7.00	TSB	7.00
Bank of Cyprus	7.00	•Guinness Mahon	7.00	United Bank of Kuwait	7.00
Bank of Ireland	7.00	Habib Bank AG Zurich	7.00	Unity Trust Bank Plc	7.00
Bank of India	7.00	•Hambros Bank	7.00	Whiteaway Laidlaw	7.00
Bank of Scotland	7.00	Heritable & Gen Inv Bk	7.00	Yorkshire Bank	7.00
Barclays Bank	7.00	•C. Hoare & Co	7.00		
Brit Bk of Mid East	7.00	Hongkong & Shanghai	7.00		
•Brown Shipley & Co Ltd	7.00	Investec Bank (UK) Ltd	7.00		
Citibank NA	7.00	Julian Hodge Bank	7.00		
Clydesdale Bank	7.00	•Leopold Joseph & Sons	7.00		
The Co-operative Bank	7.00	Lloyds Bank	7.00		
Coutts & Co	7.00	Midland Bank	7.00		
Cyprus Popular Bank	7.00	NatWestminster	7.00		
Duncan Lawrie	7.00	•Rea Brothers	7.00		
		Royal Bk of Scotland	7.00		
		Scottish Widows Bank	7.00		

• Members of London Investment Banking Association
* In administration

COMMODITIES AND AGRICULTURE

Coffee falls by more than 5%

MARKETS REPORT

By Gary Mead

Coffee prices tumbled by more than 5 per cent in London yesterday, with the January future finishing at $1,506 a tonne, $81 lower than the previous close.

Traders said the hectic late-afternoon selling on the London International Financial Futures Exchange was inspired by technical factors.

Investment funds off-loaded long positions – in effect, bets that prices would rise – in spite of potentially bullish news, including a deterioration of a Colombian truck-drivers' strike that started on Sunday.

The stoppage appeared to have paralysed the port of Buenaventura, through which pass 60 per cent of Colombia's coffee exports. The third strike in a year, it coincides with Colombia's main harvest, when some 60 per cent of the annual crop is gathered.

The dispute also comes on top of a long spell of unusually dry weather in Colombia, which will probably affect the quality of as many as 300,000 60kg bags, three times more than anticipated.

Lack of rain also threatens coffee production in the Indonesian provinces of Bengkulu, Lampung and Sumatra, which account for 70 per cent of Indonesia's coffee production.

In a normal year Indonesia produces about 450,000 tonnes of robusta coffee beans, which are used primarily in soluble or instant coffee. Estimates for this year's harvest have already been scaled back to 300,000 tonnes, but more pessimistic estimates suggest it could fall to as low as 220,000 tonnes, while forecasts for the 1998 crop are already down to 300,000 tonnes.

Indonesian coffee harvests normally start in April but 1998's could be delayed by several months, and the quality is likely to be poorer than usual.

Lawrence Eagles, commodities analyst with brokers GNI, said various factors lay behind the bearish mood.

"There has been a technical break but we're also at the start of the Central American harvest, which is expected to be good," he said. "International roasters are much better covered than they were this time last year, and there are also signs that the 1998-99 crop in Brazil will be very big indeed. Whatever problems Indonesia faces are in the future, and Vietnam's increasing production will in any case be a good substitute."

Vietnam is well placed to make good any Indonesian shortfall, as its 1996-97 crop is likely to show record production of 300,000 tonnes, with a minimum of 350,000 tonnes next year.

The slide in coffee futures had already hit New York's Coffee, Sugar and Cocoa Exchange last week, but the December future dipped again yesterday from its opening level of 150.30 cents a pound. It fell to 148.50 cents, before recovering to 150.25 cents in late morning trading.

Last week's volatility in oil futures seemed to have ebbed away. The December contract for Brent crude edged up slightly in morning trading on the International Petroleum Exchange, though in later trading it slipped back to stand just one cent higher, at $19.76 a barrel.

India set to use more gold

By Mark Nicholson in New Delhi and Kenneth Gooding in London

India, already one of the world's biggest gold bullion markets, is likely to consume more of the precious metal in the long term as a result of a further easing of import restrictions, analysts suggested yesterday.

However, the changes could hit gold trading in Dubai, which at present re-exports 80 per cent of its gold to India, they warned.

The Indian government last week announced that it would allow 11 selected institutions freedom for the first time to buy unlimited quantities of gold for retail sale in the domestic market.

It said the move was designed to curb gold smuggling and provide a further fillip to jewellery makers in India. It also said it was a step towards the eventual goal of making the rupee fully convertible on the capital account, allowing full freedom for the international transaction of financial assets. At present the rupee is only partially convertible on the capital account, having been fully convertible for trade since 1994.

By reducing the amount of smuggled gold, an estimated 120 tonnes a year of India's total consumption of 500 tonnes, the move is also expected to raise state revenues from duties, which remain unchanged at Rs220 ($6) per 10g of gold.

The nominated institutions' dollar purchases of the metal are also likely to introduce some downward pressure on the rupee, which has remained firm – and in the view of many of India's currently struggling exporters, overvalued – by virtue of strong capital inflows and weaker Indian imports.

The nominated state-run agencies and banks, including three foreign banks, were previously allowed to import gold only to sell on to exporting Indian jewellery makers.

Others could import gold legally only under special licence. The Reserve Bank of India, the central bank, has also been allowed for the first time to nominate other banks or agencies to import the metal.

India's high consumption of gold is spurred by heavy demand in rural India for jewellery, widely used as a store of wealth and an essential gift and adornment at weddings – of which there are reckoned to be as many as 10m a year.

Rhona O'Connell, analyst at specialist stockbroker T Hoare, said: "Gold demand in India is driven more by good harvests and people buy only what they feel they can afford – selling your gold in India is tantamount to admitting bankruptcy. So, if Indian gold prices come down because of this, offtake should increase. That won't make much difference this year, however."

She said that traders in Dubai would now be worried because India might import much more gold directly and threaten Dubai's position as the leading gold redistribution centre.

The authorised Indian importers are the State Trading Corporation, MMTC, and Handicrafts and Handloom Export Corporation of India – all state institutions – along with State Bank of India, Bank of India, Canara Bank, Indian Overseas Bank, Allahabad Bank, and also three foreign banks: Bank of Nova Scotia, ABN-Amro and Standard Chartered.

Reuters

New import rules should provide a fillip to India's jewellers

Record silver demand forecast

By Kenneth Gooding

Global demand for silver this year will exceed the record 815m ounces recorded in 1996, the Washington based Silver Institute predicted yesterday.

The institute made the forecast after reporting that India, the biggest importer of silver, had absorbed 50 per cent more in the first eight months of this year compared with 1996.

Data provided by the Gold Fields Mineral Services consultancy showed that Indian silver imports had already topped the record 105m ounces achieved for the whole of last year.

Paul Bateman, executive director of the institute, which represents silver miners, refiners, fabricators and manufacturers, said that while some rise in newly-mined silver was expected this year, demand would significantly outpace conventional supply – from mines and recycled scrap – for the eighth successive year.

Since the first week in June, silver stocks on the New York Commodity Exchange had fallen by about 66m ounces, compared with a 13.3m fall in 1996, GFMS pointed out. Much of this had been exported to the UK by arbitrageurs taking advantage of the premium of London over New York prices. However, "despite this shift, bullion stocks in the principal European dealers' vaults also have continued to fall this year."

GFMS suggested that growing rural incomes in India had contributed to the increase in silver imports, as had a lower local price. Nevertheless, the Indian price this year had been only 5.6 per cent lower than the average in 1996.

COMMODITIES NEWS DIGEST

UK dairy farmers back joining Emu

Joining the single European currency could benefit UK dairy farmers, whose profit margins have been squeezed by the strength of sterling to their lowest for 12 years, a conference will hear today. David Jones, head of planning at Milk Marque, the farmer-owned milk supplying co-operative, will say monetary union would remove costs, improve certainty and increase stability for the industry.

Milk prices have fallen by 20 per cent in the past year because of the impact of the pound's strength on Ecu-based dairy support prices, he will tell the conference at the National Agricultural Centre in Stoneleigh, Warwickshire. But he will say that Emu is not a panacea. Trade distortions and uncertainty will continue before the UK joins, and afterwards the full benefits will not be realised without a greater commitment by dairy processors to long-term growth.

Another sector badly affected by currency volatility is the UK tomato industry, which has seen prices fall more than 25 per cent from last year as the pound has risen against currencies in Spain and the Netherlands, major competitors. "Stable exchange rates would be of great benefit in investment planning," Gerry Hayman, an independent horticulture consultant, will tell the conference.

Alison Maitland

■ WHEAT FUTURES

Matif silent on revamp reports

Matif, the French futures exchange, yesterday refused to comment on reports that it was planning to revamp its wheat futures contract. Traders claimed low trading volumes had forced the exchange to rethink the contract, launched in July 1996.

Matif's wheat futures contract was promoted as the first Europe-wide wheat contract. It was projected to achieve daily trading volume of 1,000 lots within two years. But the complexity of the contract has contributed to significantly lower results than that, with September registering only 800 lots for the entire month. The Dutch exchange ATA abandoned its attempt to run a wheat futures contract almost a year ago.

Gary Mead

■ VIRGIN ISLANDS ALUMINA

Plan to restart idled refinery

Alcoa World Alumina and Chemicals, a joint venture between the Pittsburgh-based Alcoa group and Australia's WMC, said yesterday that it plans to restart its idled alumina refinery in the US Virgin Islands, in order to meet next year's demand. The St Croix refinery, which last operated in 1994, has a capacity of 600,000 metric tonnes a year, and will take about 10 to 15 weeks to move back into operation.

AWAC, in which Alcoa is the larger partner and which accounts for about 25 per cent of world alumina output, acquired the refinery from the Switzerland-based Glencore trading company in 1995. Paul O'Neill, Alcoa chairman, said the company's alumina capacity was already "sold out" for next year, even taking account of the material which would be produced by St Croix.

Nikki Tait, Chicago

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1592.5-3.5	1618.5-9.5
Previous	1603-04	1627-28
High/low		1630/1615
AM Official	1593-94	1619-20
Kerb close		1624-6
Open int.	237,431	
Total daily turnover	88,211	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1443-8	1470-73
Previous	1447-52	1473-75
High/low		1477/1470
AM Official	1440-45	1468-70
Kerb close		1470-73
Open int.	5,155	
Total daily turnover	1,285	

■ LEAD ($ per tonne)

Close	600-1	612-3
Previous	598-99	609-10
High/low		614/605
AM Official	594-95	607-07.5
Kerb close		609-10
Open int.	29,703	
Total daily turnover	6,571	

■ NICKEL ($ per tonne)

Close	6420-30	6505-15
Previous	6455-65	6540-50
High/low		6530/6470
AM Official	6370-75	6470-75
Kerb close		649-500
Open int.	54,647	
Total daily turnover	16,130	

■ TIN ($ per tonne)

Close	5440-50	5475-80
Previous	5530-40	5560-65
High/low		5560/5450
AM Official	5465-70	5500-05
Kerb close		5450-60
Open int.	15,671	
Total daily turnover	5,461	

■ ZINC, special high grade ($ per tonne)

Close	1260-61	1279-80
Previous	1286-87	1301-02
High/low		1290/1268
AM Official	1250-51	1270-71
Kerb close		1268-9
Open int.	78,065	
Total daily turnover	23,221	

■ COPPER, grade A ($ per tonne)

Close	2125-6	2142-3
Previous	2086-87	2106-07
High/low	2091/2090	2148/2106
AM Official	2089-90	2110-11
Kerb close		2140-41
Open int.	145,974	
Total daily turnover	52,724	

■ LME AM Official £/$ rate: 1.6278
LME Closing £/$ rate: 1.6300

Spot: 1.6300 3 mths: 1.6240 6 mths: 1.6185 9 mths: 1.6132

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	95.95	+1.25	97.05	94.50	222	682
Nov	96.40	+1.25	97.30	96.30	70	2,549
Dec	96.95	+1.20	98.20	95.50	2,989	26,748
Jan	96.95	+1.00	97.80	96.10	14	1,058
Feb	96.85	+1.00	–	–	11	1,187
Mar	96.80	+0.70	98.00	98.00	78	6,399
Total					3,427	82,541

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	323.80-324.30		
Opening	324.50-324.80		
Morning fix	324.25	198.780	478.074
Afternoon fix	323.80	199.395	477.331
Day's High	325.05-325.33		
Day's Low	323.20-323.50		
Previous close	324.10-324.60		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....2.71 6 months 2.83
2 months ....2.71 12 months 3.14
3 months 2.62

Silver Fix	p/troy oz.	US cts equiv.
Spot	303.30	493.90
3 months	306.50	497.25
6 months	309.70	500.75
1 year	316.25	508.15

Gold Coins	$ price	£ equiv.
Krugerrand	327-329	200-202
Maple Leaf	-	-
New Sovereign	76-78	46-48

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	323.0	-1.3	323.0	323.0	22	135
Nov	323.6	-1.3	–	–	303	1
Dec	324.8	-1.4	326.1	324.5	33,410	82,478
Feb	326.2	-1.4	328.2	325.9	6,565	25,157
Apr	327.9	-1.4	328.8	328.3	80	5,694
Jun	329.8	-1.4	330.6	330.0	1,659	16,186
Total					43,494	174,782

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	419.2	-0.6	421.0	421.0	10	145
Jan	421.2	-0.6	422.5	420.2	2,164	12,509
Apr	416.7	-0.6	–	–	76	942
Jul	413.2	-0.6	415.5	415.5	1	21
Total					2,172	13,617

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	210.35	–	213.50	210.35	572	3,922
Mar	206.65	–	210.00	206.65	30	650
Jun	203.15	–	–	–	4	112
Sep	197.15	–	–	–	–	2
Total					606	4,681

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	490.5	-1.9	–	–	0	0
Nov	492.0	-2.0	–	–	–	1
Dec	493.8	-2.0	496.0	487.0	11,182	87,281
Jan	495.1	-2.0	–	–	5	20
Mar	499.7	-2.0	501.0	493.0	3,399	19,783
May	502.4	-2.0	499.5	497.5	1,723	2,675
Total					16,732	100,353

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	20.66	+0.07	20.75	20.45	39,561	44,400
Dec	20.86	+0.12	20.98	20.62	56,786	108.1k
Jan	20.91	+0.21	20.98	20.66	8,904	49,353
Feb	20.85	+0.26	20.86	20.55	4,426	28,979
Mar	20.71	+0.23	20.70	20.64	2,191	16,343
Apr	20.50	+0.11	20.68	20.47	1,840	13,942
Total					119,559	422,547

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	19.74	-0.01	19.86	19.63	16,104	76,974
Jan	19.77	-0.01	19.88	19.65	6,810	34,112
Feb	19.75	–	19.80	19.63	2,532	14,315
Mar	19.63	–	19.68	19.50	545	5,311
Apr	19.32	-0.10	19.44	19.38	297	3,261
May	19.27	-0.01	19.33	19.25	466	3,515
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	57.85	+0.45	58.05	57.25	12,843	38,619
Dec	58.70	+0.56	58.90	57.91	9,867	44,811
Jan	59.40	+0.66	59.45	58.70	1,767	21,911
Feb	59.60	+0.66	59.60	58.95	1,292	11,867
Mar	58.70	+0.56	58.75	58.25	261	8,187
Apr	56.60	+0.11	56.60	56.60	584	5,082
Total					27,443	144,842

■ GAS OIL IPE ($/tonne)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	179.25	-4.25	101.25	178.25	7,899	35,702
Dec	180.25	-4.25	182.25	179.75	3,546	20,089
Jan	181.25	-4.75	183.00	181.25	404	15,134
Feb	181.50	-4.50	183.00	181.50	312	7,538
Mar	179.00	-4.50	179.50	179.50	114	5,146
Apr	176.25	-4.75	177.00	177.00	2	2,405
Total					12,080	100,912

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	13.250	+0.190	13.250	13.110	175	1,150
Dec	15.650	+0.180	15.650	15.500	195	1,435
Total					876	12,118

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	3.455	+0.167	3.470	3.300	32,939	45,771
Dec	3.535	+0.182	3.540	3.370	12,960	42,928
Jan	3.485	+0.171	3.485	3.335	8,351	28,422
Feb	3.090	+0.128	3.090	2.960	1,577	20,800
Mar	2.755	+0.090	2.755	2.675	1,277	14,751
Apr	2.435	+0.052	2.435	2.390	580	9,023
Total					58,179	248,250

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	59.60	+0.29	59.80	58.85	14,399	27,724
Dec	59.15	+0.44	59.35	58.60	6,549	22,154
Jan	59.15	+0.55	59.20	58.60	2,808	10,649
Feb	59.40	–	59.40	59.15	1,874	6,822
Mar	59.70	+0.45	59.90	59.70	1,394	5,116
Apr	62.40	+0.70	62.40	62.19	618	4,012
Total					29,411	93,351

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	85.10	-0.90	85.25	85.00	165	1,395
Jan	87.10	-0.90	87.40	87.00	139	3,237
Mar	89.10	-0.90	89.25	89.00	64	2,810
May	91.10	-0.90	91.25	91.00	76	2,015
Jul	93.10	-0.90	93.25	93.00	10	183
Total					448	9,758

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	370.50	+7.25	371.00	362.00	8,491	60,105
Mar	383.25	+6.00	383.75	376.00	1,956	27,634
May	390.25	+6.25	390.50	383.50	180	5,256
Jul	390.50	+4.50	391.00	384.00	773	12,987
Sep	394.00	+4.00	390.00	390.00	11	88
Dec	405.00	+5.50	405.00	402.50	13	2,984
Total					11,494	109,042

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	283.00	+1.00	288.00	280.25	45,889	207,461
Mar	292.25	+0.50	295.00	290.00	14,051	94,414
May	298.00	+1.00	300.50	295.00	4,428	27,556
Jul	302.00	+0.75	304.50	299.25	5,110	36,289
Sep	292.25	+2.50	292.75	289.00	146	2,550
Dec	290.00	+2.50	290.50	286.50	2,365	21,714
Total					72,022	390,824

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	78.75	-0.75	78.95	78.75	3	852
Jan	79.85	-0.80	79.85	79.85	20	1,078
Mar	82.50	-0.50	82.50	82.50	1	375
May	84.25	-0.50	–	–	–	23
Sep	83.00	-1.00	–	–	–	6
Total					24	2,329

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	691.00	-1.00	706.00	687.00	41,610	77,737
Jan	695.00	-1.00	713.00	690.00	9,593	44,057
Mar	702.75	-1.75	720.00	698.50	4,123	18,510
May	707.50	-1.25	721.00	703.50	1,356	14,705
Jul	713.50	-1.00	728.00	710.00	1,794	12,941
Aug	711.00	+1.00	722.00	717.00	18	475
Total					58,607	175,400

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	24.41	-0.12	24.50	24.36	253	585
Dec	24.70	-0.11	24.87	24.61	7,052	56,278
Jan	24.90	-0.13	25.05	24.85	1,767	21,951
Mar	25.15	-0.14	25.32	25.10	1,225	11,654
May	25.26	-0.21	25.45	25.23	552	7,341
Jul	25.38	-0.20	25.58	25.37	109	8,044
Total					10,584	107,447

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	221.5	-1.8	227.5	221.3	1,676	2,893
Dec	221.6	+0.9	227.0	219.3	11,687	45,789
Jan	220.7	+0.3	225.5	218.5	3,597	20,018
Mar	218.2	+0.7	223.0	216.0	3,037	19,108
May	217.6	+1.3	221.0	215.5	2,038	15,855
Jul	219.0	+1.5	222.0	218.5	898	10,897
Total					23,298	119,324

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	50.0	-4.0	–	–	–	6
Mar	95.0	+8.0	–	–	–	–
Apr	120.0	+0.0	120.1	113.0	189	1,109
May	130.0	+8.0	–	–	–	22
Jun	140.0	+8.0	–	–	–	–
Total					189	1,137

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	1326	-14	1335	1325	22	889
Nov	1360	-17	1400	1385	51	911
Dec	1400	-15	1400	1398	12	102
Jan	1405	-15	1405	1400	25	654
Apr	1430	-15	1430	1430	1	318
Total					121	2,839

	Close	Prev
BFI	1343	1352

PULP AND PAPER

■ PULPEX OMLX ($6: 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	596.00	+2.00	596.00	595.00	10	245
Total					19	656

FUTURES DATA
All futures data supplied by CMS.

Tea from The Tea Brokers' Association
Landed: There was good demand for landed tea. Assams came to a firm market with prices generally unchanged. Coloury Kenyas and improving Burundis were dearer, while lighter liquoring sorts were about steady. Offshore: Coloury East and Central Africans were fully firmer to dearer. Quotations for this sale: Landed: best available 200p; good 157p; good medium 152p; medium 142p; low medium 120p. The highest price realised this week was 200p for an Assam OF.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1097	-19	1111	1095	1,280	46,881
Mar	1120	-16	1135	1118	1,541	52,719
May	1136	-10	1151	1138	60	23,571
Jul	1156	-16	1160	1160	0	9,083
Sep	1174	-15	1188	1175	57	18,255
Dec	1186	-13	1197	1185	730	18,757
Total					5,898	186,123

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1643	-3	1661	1638	4,365	43,121
Mar	1676	-4	1695	1673	2,166	28,287
May	1698	-6	1713	1710	782	12,624
Jul	1717	-5	1734	1725	443	3,829
Sep	1735	-3	1741	1740	79	4,779
Dec	1752	-3	1752	1752	71	9,100
Total					7,806	112,136

■ COCOA (ICCO) (SDR's/tonne)

Oct 17	Price	Prev. day
Daily	1277.46	1288.75

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	1492	-74	1555	1480	2,050	11,506
Jan	1505	-81	1572	1505	7,300	15,268
Mar	1518	-74	1577	1518	1,600	6,281
May	1526	-71	1583	1528	200	1,622
Jul	1536	-75	1583	1550	75	474
Sep	1546	-75	1590	1590	20	211
Total					11,246	35,372

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	150.70	+0.40	153.25	148.50	7,922	11,938
Mar	139.80	-0.40	141.50	138.25	2,894	7,938
May	136.75	+0.35	138.00	135.00	534	2,430
Jul	133.25	+0.35	134.50	132.25	474	2,414
Sep	128.75	-0.15	130.50	128.25	455	670
Dec	124.75	-0.15	126.00	124.75	184	578
Total					12,445	25,976

■ COFFEE (ICO) (US cents/pound)

Oct 17		Prev. day
Comp. daily	117.94	121.70
15 day average	125.55	126.11

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	300.1	-0.8	300.5	300.1	41	9,874
Mar	306.5	-0.8	306.2	306.1	40	15,353
May	210.9	-1.4	310.9	310.9	200	3,083
Aug	315.4	-1.3	214.9	314.9	200	2,089
Oct	312.2	-2.4	314.0	314.0	2	3,025
Dec	215.8	–	–	–	–	124
Total					2,381	34,339

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	11.85	+0.17	11.88	11.63	10,065	90,219
May	11.85	+0.12	11.88	11.69	1,782	25,134
Jul	11.77	+0.13	11.80	11.60	1,140	19,148
Oct	11.73	+0.13	11.75	11.56	730	16,988
Mar	11.64	+0.07	11.66	11.53	212	4,048
May	11.61	+0.05	11.54	11.54	2	229
Total					14,655	155,865

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	71.12	-0.51	71.81	70.86	3,499	50,266
Mar	72.53	-0.51	73.05	72.35	802	16,508
May	73.37	-0.53	73.80	73.20	187	8,323
Jul	74.23	-0.42	74.60	74.10	225	7,825
Oct	75.90	-0.40	75.90	75.90	89	819
Dec	76.05	-0.25	76.30	75.95	868	8,627
Total					5,577	92,578

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	69.70	+0.35	69.90	68.00	1,647	12,289
Jan	72.05	+0.40	72.20	71.50	1,957	15,169
Mar	75.15	+0.35	75.20	74.80	798	9,311
May	78.25	+0.25	78.20	78.00	127	2,209
Jul	81.25	+0.25	–	81.00	80	1,015
Sep	84.25	+0.25	83.80	83.80	70	388
Total					4,768	46,807

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Oct 20	Oct 17	month ago	year ago
1852.4	1866.7	1917.9	1965.1

■ CRB Futures (Base: 1967 = 100)

Oct 17	Oct 10	month ago	year ago
242.32	243.92	–	–

■ GSCI Spot (Base: 1970 = 100)

Oct 17	Oct 16	month ago	year ago
204.12	205.69	194.26	210.06

LME WAREHOUSE STOCKS (tonnes)

Aluminium	+1,000	to	743,950
Aluminium alloy	-400	to	48,100
Copper	-300	to	336,325
Lead	-575	to	118,100
Nickel	+132	to	54,692
Zinc	+450	to	456,700
Tin	+210	to	10,730

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Oct	68.125	+0.450	68.400	67.725	1,749	3,881
Dec	66.250	-0.225	67.050	66.225	6,477	43,599
Feb	68.325	-0.225	69.050	68.250	2,001	21,197
Apr	72.175	-0.300	72.750	72.100	1,474	13,184
Jun	69.725	+0.050	70.000	69.625	699	9,075
Aug	69.850	+0.125	69.850	69.600	79	2,797
Total					12,518	94,757

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	60.075	-0.800	61.175	60.025	4,344	20,347
Feb	60.700	-0.225	61.250	60.525	2,451	8,637
Apr	58.600	-0.200	59.200	58.525	612	3,677
Jun	65.625	-0.325	66.100	65.300	143	1,778
Jul	64.125	-0.025	64.450	64.000	76	939
Aug	63.150	+0.025	63.200	63.000	28	228
Total					7,637	36,993

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	59.800	-0.850	61.125	59.250	1,220	6,658
Mar	59.550	-0.850	60.800	59.150	143	851
May	60.550	-1.200	62.100	60.400	15	187
Jul	61.950	-1.225	63.200	61.100	14	132
Aug	60.875	–	–	60.875	1	13
Total					1,262	8,000

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Dec	Mar	Dec	Mar
1500	122	149	3	17
1600	46	82	27	48
1700	10	38	90	101
■ COPPER (Grade A) LME	Dec	Mar	Dec	Mar
2000	160	179	18	47
2100	90	120	48	85
2200	43	75	99	138
■ COFFEE LIFFE	Jan	Mar	Jan	Mar
1550	55	100	100	132
1600	38	84	133	166
1650	26	68	171	198
■ COCOA LIFFE	Dec	Mar	Dec	Mar
1100	33	77	36	57
1125	23	85	51	70
1150	15	55	68	85
■ BRENT CRUDE IPE	Nov	Dec	Nov	Dec
1950	-	-	55	-
2000	-	76	-	-
2050	32	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$18.75-8.85w	-0.595
Brent Blend (dated)	$19.32-9.35	-0.785
Brent Blend (Dec)	$19.77-9.80	-0.665
W.T.I.	$20.87-0.89w	-0.71

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$210-212	
Gas Oil	$181-183	-5
Heavy Fuel Oil	$100-102	
Naphtha	$193-195	-3
Jet fuel	$197-198	-4
Diesel	$188-190	-5.5

■ NATURAL GAS (Pence/therm)

Bacton (Nov)	13.20-13.30	+0.20

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

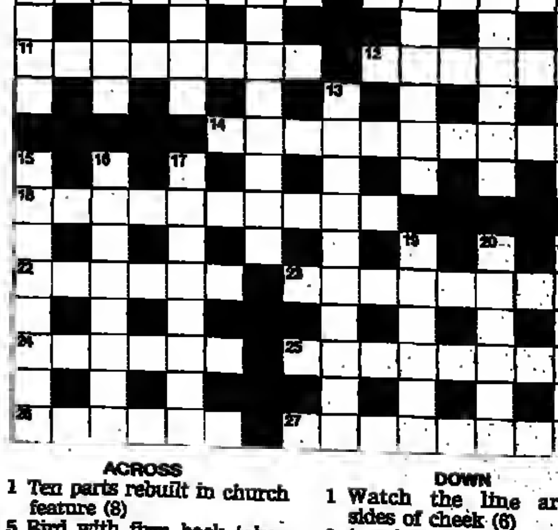
Gold (per troy oz)♣	$324.05	-0.90
Silver (per troy oz)♣	495.00c	+3.50
Platinum (per troy oz.)	$421.50	-2.00
Palladium (per troy oz.)	$210.00	-9.00
Copper	100.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	19.09r	+0.28
Tin (New York)	256.5	-8.00
Cattle (live weight)	95.95p	-0.29*
Sheep (live weight)	104.15p	-0.97*
Pigs (live weight)†	70.04p	-0.44*
Lon. day sugar (raw)	$272.50	-1.10
Lon. day sugar (wte)	$296.50	
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Nov)♥	58.00p	
Rubber (Dec)♥	58.00p	
Rubber (KL RSS No1)	281.0z	+1.00
Coconut Oil (Phil)§	610.0z	
Palm Oil (Malay.)§	522.5z	
Copra (Phil)§	$412.5	
Soyabeans (US)	210.0	-13.5
Cotton Outlook'A' index	77.50c	
Wooltops (64s Super)	428p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Sep/Oct. z Oct/Nov. w Dec. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 711 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,511 Set by QUARK



ACROSS

1 Ten parts rebuilt in church feature (8)
5 Bird with firm back taken into an animal doctor (6)
9 Hairdo office demolished outside the city (8)
10 Picks up different angles (6)
11 Shell case crushed, left by dock (8)
12 The atmospheric disturbance is not moving (6)
14 Rugby charges? (6,4)
18 Row at the stake is a striking feature (6,4)
22 A hundred at the card game? Not good (6)
23 Point out the peculiar Inca diet (8)
24 Language of artist born in leading century (6)
25 Having far from perfect pitch (not cricket!) (4-4)
26 English second side, they say, is in favour (6)
27 Outstanding figures in the art world (8)

DOWN

1 Watch the line around sides of cheek (6)
2 A quiet time, say, given to everyone individually (6)
3 Repeat this to be cautious (6)
4 Possibly opt for a ring in place visited (4,2,4)
6 Curly tail seen in a rodent, lively (8)
7 More cunning, having more creative activities? (8)
8 Check suit that acts as a precedent (4,4)
13 Tramp the county and get away (4-3-3)
15 Room and time in which we live (5,3)
16 Old worker clasps the trophy he's the holder (8)
17 When lessons can be learnt – after 14 paid? (4,4)
19 Rich man with a bit of treasure to get rid of (6)
20 TV equipment became radioactive? Not entirely (6)
21 Tower where hanging takes place (6)

Solution to Saturday's prize puzzle on Saturday November 1.
Solution to yesterday's prize puzzle on Monday November 3.

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA
(SIB RECOGNISED)

BERMUDA
(REGULATED)(**)

GUERNSEY
(SIB RECOGNISED)

GUERNSEY
(REGULATED)(**)

IRELAND
(SIB RECOGNISED)

IRELAND
(REGULATED)(**)

ISLE OF MAN
(SIB RECOGNISED)

ISLE OF MAN
(REGULATED)(**)

JERSEY
(SIB RECOGNISED)

JERSEY
(REGULATED)(**)

LUXEMBOURG
(SIB RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Aetna Master Fund (x) (x)

Fleming Group - Contd.

Morgan Stanley Sicav - Contd.

ACM Offshore Funds - Contd.

Credit Investment Funds - Contd.

Merrill Lynch Asset Management - Contd.

Tower Fund

Tweedy, Browne Value Funds

Unico Financial Services SA Lux

Friends Provident International

General International Limited

American Phoenix Investment Portfolios (x)

Foreign & Colonial Emerging Markets Ltd (x)

Daiwa Japan Small Equity Fd (x)

Dicam Worldwide Investment Fund

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Professional Investment Consultants

Royal Life International

Royal Court, Anbury Rd, Castletown Iom 01624 821210

Royal Skandia Life Assurance Ltd (2)

BEA Associates

Julius Baer Bank & Trust Co Ltd

Banco do Brasil–BB Fund

Banc Internacional D'Andorra Banca Mora

Bank of America

World Nations Funds

Bank of Nova Scotia Trust Co (Cayman) Ltd

FT MANAGED FUNDS SERVICE — OTHER OFFSHORE FUNDS

FT MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

BANKS, RETAIL

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

BREWERIES, PUBS & REST

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

BUILDING & CONSTRUCTION

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

BUILDING MATS. & MERCHANTS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

CHEMICALS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

CHEMICALS - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

DISTRIBUTORS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

DIVERSIFIED INDUSTRIALS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

ELECTRICITY

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

ELECTRONIC & ELECTRICAL EQPT

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

ENGINEERING

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

ENGINEERING - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

ENGINEERING, VEHICLES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

ENGINEERING, VEHICLES - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

EXTRACTIVE INDUSTRIES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

EXTRACTIVE INDUSTRIES - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

FOOD PRODUCERS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

GAS DISTRIBUTION

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

HEALTH CARE

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

HEALTH CARE - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

HOUSEHOLD GOODS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

INSURANCE

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

INVESTMENT TRUSTS

Approved by the Inland Revenue

	Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
[illegible]								

INVESTMENT TRUSTS - Cont.

	Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
[illegible]								

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

	Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
[illegible]								

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Cont.

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind R		£29¼	–	*£27¾	£20¼	1,800	3.1	ф
Barlow	‡†	[illegible]	[illegible]	[illegible]	[illegible]	1,428	2.0	14.9
Gold Flds Prop R		154¼	-1¼	197	122	15.8	5.5	12.1
SA Brews		£17⅝	-⅛	£22¼	£13⅝	5,183	2.1	ф
Standard Bank		[illegible]	–	[illegible]	[illegible]	3,422	2.0	–
Tiger Oats	†	1015	+15	1100	790	1,894	1.6	19.9
Tongaat-Hulett		755¼	-6¼	780	676¼	733.2	2.9	ф

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves marked † in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for investment trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ф Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡† Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. D Figures based on prospectus or other official estimates. e Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. z Dividend yield includes a special payment. F Yield based on prospectus or other official estimates for 1996-97. H Assumed yield after pending scrip and/or rights issue. J Yield based on prospectus or other official estimates for 1997. K Yield based on prospectus or other official estimates for 1998. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). R Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion

♣ FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT4935. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports will be sent the next working day, subject to availability.

FT Company Focus / Focus Plus

Comprehensive 10-18 page report available on this company, containing key news stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements.
Company Focus (FT news) £8.45.
Focus Plus (FT and Investors Chronicle news) £10.95.
To order, call 0121 200 4678.
Reports published by ShareFinder.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

Calls are charged at 50p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

All access to and use of FT Cityline is subject to FT Cityline terms and conditions - your copy will be sent free on request.

Call 0171 873 4378 for more information on FT Cityline.

The share prices printed on these pages are also available on the internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Equities perform well in the face of adversity

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

Gordon Brown pressed the start button of a brave new world of order-driven trading in London's equity market yesterday. But the chancellor was most certainly not the most popular man in the City, nor were the "spin-doctors" who contrived to worsen what was always going to be a difficult day.

A perceived shift in the timing of the UK's entry into economic and monetary union, to beyond the next general election, would in the normal run of things have put the market under intense pressure.

Coming on the day a new trading system was introduced, as well as the tenth anniversary of the 1987 crash, and following a near five per cent fall on the Hong Kong market, it looked like stretching the nerves of market-makers, or RPTs (registered principal traders) as they are now known, to the limit.

But the system and the RPTs' nerves held up well under the strain, and the market saw an early hefty fall more than halved.

"If Mr Brown wanted to test the viability of the new dealing system then he certainly chose the right time; we had all the ingredients for a stock market nightmare," said one dealer.

The FTSE 100 index ended with a 60.1 point, or 1.1 per cent, loss at 5,211.0. Second-liners, which are still traded by the "quote-driven" or marketmaker system, were similarly unsettled, with the FTSE 250 index finally 41.9, or 0.8 per cent, off at 4,908.5. The FTSE SmallCap closed 8.2 down at 2,398.0. The All-Share index settled 25.6 down at 2,454.5.

"I, along with everyone else, would have settled for these sort of falls before the day began," said the head trader at one of the big European securities houses.

The market's prospects looked much bleaker at the outset. With Footsie not calculated until the first market trades in constituent stocks had taken place, its opening shot showed the index down 15.6 at 5,255.5. But within five minutes, as bids and offers were loaded on to the order book, the index was down 40 points. Within 10 minutes it was 118 adrift.

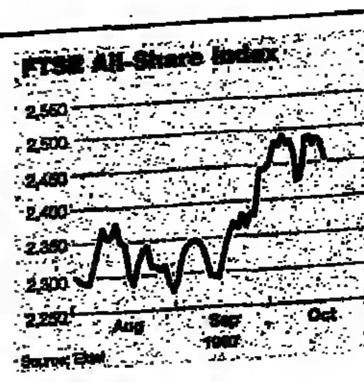
At that point, the market suddenly rallied, halving the index fall. A firm opening by Wall Street, where the Dow Jones Industrial Average managed a 30 point gain in the late US morning, gave further encouragement to London, although Footsie later drifted back.

At 6pm, turnover in equities reached 494m shares, with non-Footsie stocks, still traded via marketmakers, accounting for 55 per cent of business.

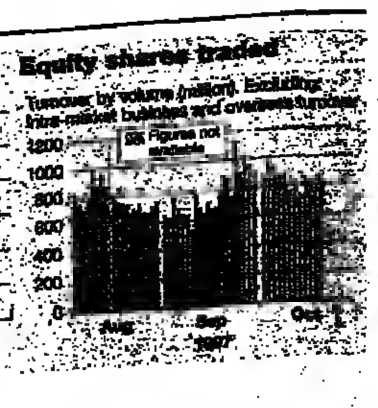
Richard Jeffrey, chief economist at Charterhouse, the merchant bank, warned that "had it not been for the introduction of the new trading system the reaction to the Emu confusion might have been much greater".

Lehman Brothers, in a report on the shift to order-driven trading, said there is "some evidence from Big Bang reforms in the Swiss market last year and in France in 1986 that a wholesale move to automated order-driven trading has coincided with strong market performance following the reforms".

FTSE All-Share Index



Equity shares traded



Indices and ratios

FTSE 100	5211.0	-60.1
FTSE 250	4908.5	-41.9
FTSE 350	2511.1	-27.5
FTSE All-Share	2454.50	-25.68
FTSE All-Share yield	3.18	3.14
FT 30	3411.2	-12.0
FTSE Non-Fins p/e	20.66	20.83
FTSE 100 Fut Dec	5247.0	-103.0
10 yr Gilt yield	6.66	6.56
Long gilt/equity yld ratio	2.09	2.11

Best performing sectors

1 Tobacco .... +0.5
2 Retailers: Food .... +0.2
3 Health Care .... -0.0
4 Retailers: General .... -0.1
5 Water .... -0.1

Worst performing sectors

1 Engineering: Vehicles .... -2.1
2 Banks: Retail .... -2.0
3 Gas Distribution .... -1.6
4 Diversified Industrials .... -1.6
5 Life Assurance .... -1.6

Sainsbury attracts support

By Joel Kibazo, Peter John and Martin Brice

Food retailer Sainsbury walked away with the honour of being the best performing Footsie stock on the first day of London's new electronic trading era as several factors combined to drive the stock higher.

The shares rose 10½ to 476p, but in keeping with the overall market, turnover remained light, reaching just 2.4m by the close.

Dealers attributed the advance to several reasons, including demand for defensive stocks at a time of uncertainty in the market. A survey by retail analysts and consultants Verdict which said retail sales volumes are forecast to grow a real 5 per cent this year also helped sentiment.

Also, the official retail sales figure for September will be published tomorrow.

Buyers of the stock may have been attracted further by Friday's profits upgrade by NatWest Securities.

The broker raised its forecast for the year to March 1998 by £25m to £720m saying it expected, among other things, gross margins to remain static but sales volumes on a like-for-like basis to rise 4.2 per cent year-on-year. This would help core supermarket profits.

The market was not with the Woolwich yesterday. The former building society led the banking sector lower as its prospects of being taken over appeared to fade.

Weekend press speculation had Lloyds TSB lining up an offer for Nationwide and, by implication, losing interest in Woolwich.

Nevertheless, one analyst said the rumour about a tie-up between Lloyds and Nationwide was based on reports of staff movements between the two companies which were highly exaggerated. He said the more prosaic background was that Woolwich was overvalued.

He added that a sector which jumped 10 per cent when the prospect of early Emu entry was first mooted was bound to see a significant correction when it was disavowed. Woolwich fell 13¾ to 307½p and Lloyds 18 to 765½p.

Elsewhere, National Westminster and Barclays, the subject of fevered merger talk late last week, lost ground. Barclays dipped 47 to £16.28 and NatWest fell 19½ to 953p with a block of 3m at that price trading just before the close.

NatWest's five-year share option plan matured yesterday and some rival brokers were suggesting cynically that disillusioned employees of the investment banking arm were taking the money and running. The bank was dismissive, arguing that, if staff had paid 261p for shares now worth 953p, it was completely realistic that they would want to take profits.

The three-pfennig rise by the pound against the D-Mark led to a retreat by companies exposed to overseas earnings, with the most geared play to strong sterling, British Steel, the worst FTSE 100 loser as it shed 8¾ to 175p.

LucasVarity, which has only 26 per cent of sales in the UK, was marked down on fears for the translation effects of a strong pound, and surrendered 8 to 210p.

Other sufferers included GKN, down 35 at £13.97, Siebe, down 6 at £12.52, and Glynwed, off 11½ at 273p.

Smiths Industries lost 14½ to 903p, with sentiment in the stock not helped by a note from Panmure Gordon suggesting its short-term outlook "prompts an element of caution". Arabella Grant at the broker told clients that "on a one-year view, we feel Smiths is quite fully valued on a 22 per cent premium". Investors should "bide their time in anticipation of the price drifting off in the short term".

TI Group avoided the worst of the currency-linked mark-downs. Sentiment was helped by the announcement that Bill Laule would become chief executive. Resolution of the issue of succession was seen as bullish for the stock, which lost 9¼ to 622p.

ICI resisted the worst effects of the currency shift with help from Sutherlands, which raised its recommendation to "buy" from "hold" ahead of third-quarter figures on Thursday. The shares fell only 3 to 946½p.

Brent International lifted 8¼ to 105½p in response to positive press on Sunday.

Hambros improved 12 to 270½p as investors anticipated a break-up of the merchant bank after it appointed Schroders to study ways of increasing shareholder value.

Commercial Union lifted 7 to 883p with SBC Warburg Dillon Read putting a £10 price tag on the stock.

BAT Industries rose 4 to 589p after positive newspaper comment on prospects for its financial services merger with Zurich Group, and as UBS repeated a "buy" recommendation.

General retailers moved against the market trend after the retail sales report by Verdict Research. The report noted the best performing sectors over the next five years would be consumer electronics, especially home computers.

Dixons gains

Not surprisingly, electronic goods retailer Dixons Group responded favourably to the report, the shares gaining 14½ ahead to 694p, one of the best performers in the FTSE 100 yesterday.

Other stocks in demand included clothes retailer Next, which rose 11 to 727p, while Great Universal Stores firmed 3½ to 721p. Marks and Spencer rose 4½ to 630p.

Anglo-Dutch giant Unilever moved 6¼ ahead to 485p, after announcing it is buying Kibon, Brazil's largest ice cream business, from US group Philip Morris for $930m.

Commenting on the purchase, Sally Jones at Credit Lyonnais Laing said: "Unilever has paid a lot of money for not a lot of sales. But this is a fast growing market and the move catapultes Unilever into market leadership position ahead of Nestle."

P&O firmed to 728p on news that Karel van Miert, the European Union competition commissioner, had ordered a final review of options on the merger with Stena Line's cross-Channel ferry operations. Traders interpreted this as meaning the merger approval was finally on the horizon.

Elsewhere among Footsie transport stocks, Railtrack continued to suffer the bout of profit-taking that started when it went through the psychologically-important £10 level, and surrendered 15 to 982p. The screens showed one seller determined to stick to the £10 price, however, for 50,000 shares.

Mersey Docks and Harbour Company gained 20 to 453½p on hopes that a two-year dispute involving workers was coming to a close. Some traders expect a re-rating of the shares, which have long been overshadowed by the dispute, and suggest they could advance by about 8 per cent.

FT 30 INDEX

	Oct 20	Oct 17	Oct 16	Oct 15	Oct 14	Yr ago	*High	*Low
FT 30	3411.2	3423.2	3430.3	3416.6	3424.6	2870.1	3430.3	2868.5
Ord. div. yield	4.19	3.31	3.29	3.30	3.30	3.95	4.22	3.29
P/E ratio net	17.54	22.25	22.33	22.25	22.30	17.46	22.33	15.80
P/E ratio nil	17.30	21.94	22.02	21.95	22.00	17.30	22.02	15.71

FT 30 since compilation: high 3430.3 16/10/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
3422.4	3366.1	3383.1	3388.3	3393.0	3397.0	3395.1	3382.7	3388.4	3422.4	3352.9

	Oct 20	Oct 17	Oct 16	Oct 15	Oct 14	Yr ago
SEAQ bargains	56,447	48,742	48,010	45,487	48,867	41,618
Equity turnover (£m)†	-	2968.6	2969.7	2968.7	2811.8	1316.8
Equity bargains†	-	46,445	47,197	48,077	50,542	34,038
Shares traded (m)†	-	807.5	838.6	805.3	819.1	453.6

†Excluding intra-market and overseas turnover but including Crest turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	340	Total Highs	75	Total contracts	24,102
Total Falls	1,387	Total Lows	113	Calls	11,503
Same	1,327			Puts	12,599

Oct 20 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	5250.0	5249.0	-101.0	5275.0	5199.0	10009	72847
Mar	5303.0	5297.5	-100.5	5310.5	5299.0	107	2164

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		4930.0	-57.0			0	8534

FTSE 100 INDEX OPTION (LIFFE) (*5205) £10 per full index point

	5050		5100		5150		5200		5250		5300		5350		5400	
	C	P	C	P	C	P	C	P	C	P	C	P	C	P	C	P
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 4,261 Puts 5,043

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	5025		5075		5125		5175		5225		5275		5325		5375	
Nov	264	57	227½	80½	193½	96	161½	114	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	322	100½	287	115	254½	132	223½	150	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	368½	122½	332	136	298½	155½	268	174½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	454½	170			378	203			[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun†	523½	207½			459	238			[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 3,311 Puts 4,848 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
•	F.P.	431.1	180½	162½	Aggreko	165	-5	W3.5	2.0	2.7	23.1
-	F.P.	0.74	17½	16½	†Buckland Inv	17½		-	-	-	-
-	F.P.	0.08	12	8	†Buckland Inv Wrt	10		-	-	-	-
-	F.P.	97.5	97½	94	Cairngrm Derect IT	97½		-	-	-	-
-	F.P.	-	21½	15½	Cairngrm Wrts	21½	+½	-	-	-	-
-	F.P.	2.38	3¼	2½	†Cambury Inv	2½		-	-	-	-
-	F.P.	0.88	1½	½	†Cambury Inv Wrts	¾		-	-	-	-
-	F.P.	127.5	174	155½	Creative Publish	158		LW7.0	1.4	6.5	16.1
§134	F.P.	7.08	147½	134½	†I S Solutions	147½		-	-	-	49.9
155	F.P.	17.2	178½	162½	Latchways	171½	-3	-	-	-	-
•	F.P.	96.5	96½	70½	†Metalrunnia	96½	+4	-	-	-	-
§115	F.P.	10.8	170½	140	†NSB Retail Sys	170½	+3	L1.15	1.8	0.8	68.2
•	F.P.	2,173	504½	450	Northern Rock	489½	-6	L9.05	2.8	2.3	19.3
70	F.P.	28.1	83½	83	Nott'ham Forest	82	-1	-	-	-	-
§245	F.P.	148.0	278½	245	SHL Group	277½		LW4.5	-	2.0	-
§148	F.P.	8.89	190½	152½	†Solitaire	190½		R6.0	1.2	3.9	14.2
§110	F.P.	57.4	117½	112½	Xaar	112½	-1	-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Oct 17	% chg on day	Oct 16	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (33)	1453.67	-1.4	1474.73	1989.91	2.04	-	1985.11	1270.14
Regional Indices								
Africa (15)	1463.39	-2.0	1493.43	2455.89	5.19	25.18	2502.51	1224.90
Australasia (6)	1518.46	-2.6	1558.71	2154.02	2.67	17.69	2218.00	1336.10
North America (12)	1458.61	-1.1	1474.33	1865.84	0.82	54.19	1838.77	1244.23

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Oct 20	Day's chge%	Oct 17	Oct 16	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5211.0	-1.1	5271.1	5287.9	4078.1	3.13	2.57	2.06	19.44	128.97	2242.24
FTSE 250	4908.5	-0.8	4950.4	4963.8	4449.4	3.42	2.80	1.78	20.55	128.11	2068.87
FTSE 250 ex IT	4933.8	-0.6	4978.9	4985.8	4483.9	3.54	2.89	1.82	19.44	133.03	2086.47
FTSE 350	2511.1	-1.1	2538.6	2546.4	2022.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350 ex IT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350 Higher Yield	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350 Lower Yield	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap ex IT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share ex IT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FTSE Actuaries Industry Sectors

	Oct 20	Day's chge%	Oct 17	Oct 16	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	5271.1	5177.8	5188.3	5210.1	5217.3	5223.7	5219.8	5199.5	5204.8	5271.1	5152.3
FTSE 250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Oct 20 / Sch)

BELGIUM/LUXEMBOURG (Oct 20 / Frs.)

CZECH REP (Oct 20 / Koruna)

DENMARK (Oct 20 / Kr)

FINLAND (Oct 20 / Mka)

FRANCE (Oct 20 / Frs.)

GERMANY (Oct 20 / Dm.)

GREECE (Oct 20 / Drachmae)

ITALY (Oct 20 / Lire)

NETHERLANDS (Oct 20 / Fl.)

NORWAY (Oct 20 / Kroner)

POLAND (Oct 20 / Zloty)

PORTUGAL (Oct 20 / Escudo)

SPAIN (Oct 20 / Pts.)

SWEDEN (Oct 20 / Kronor)

SWITZERLAND (Oct 20 / Frs.)

TURKEY (Oct 20 / Tk Lira)

PACIFIC

JAPAN (Oct 20 / Yen)

AUSTRALIA (Oct 20 / AustS)

HONG KONG (Oct 20 / H.K.$)

INDONESIA (Oct 20 / Rupiah)

MALAYSIA (Oct 20 / MYR)

NEW ZEALAND (Oct 20 / NZ $)

SINGAPORE (Oct 20 / S$)

SOUTH KOREA (Oct 20 / Won)

TAIWAN (Oct 20 / TW $)

THAILAND (Oct 20 / Baht)

AFRICA

SOUTH AFRICA (Oct 20 / Rand)

NORTH AMERICA

CANADA

TORONTO (Oct 20 / Can $) 4 pm close

MONTREAL (Oct 20 / Can $) 4 pm close

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY OCTOBER 17 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY OCTOBER 16 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	226.86	-0.8	208.03	172.24	208.60	205.78	-0.3	3.71	228.73	209.27	173.46	207.42	206.35	243.87	208.89	213.05
Austria (24)	206.63	-2.6	189.52	156.92	190.05	189.99	-1.2	1.73	212.12	194.07	160.86	192.36	192.31	213.59	175.14	180.24
Belgium (27)	245.25	-2.7	224.89	186.20	225.51	220.64	-1.5	3.13	252.13	230.68	191.20	228.84	223.97	261.11	218.54	218.54
Brazil (30)	297.05	-0.7	272.39	225.53	273.15	601.25	-0.7	1.21	299.10	273.65	226.92	271.24	605.28	322.44	178.94	188.00
Canada (123)	225.08	-0.8	206.39	170.89	206.97	225.93	-0.7	1.88	226.36	207.10	171.68	205.27	227.53	233.66	175.83	175.83
Denmark (32)	418.14	-1.8	384.34	318.22	385.41	384.03	-0.4	1.33	426.84	390.51	323.69	387.07	385.72	429.78	327.98	331.03
Finland (26)	336.59	-2.8	308.65	255.55	309.51	374.91	-1.8	1.66	346.78	317.25	262.97	314.46	381.04	349.43	218.01	217.39
France (83)	235.95	-2.5	216.36	179.14	216.97	219.53	-1.2	2.40	242.06	221.46	183.56	218.51	222.18	246.23	199.33	199.33
Germany (59)	226.63	-2.7	207.82	172.07	208.40	208.40	-1.4	1.38	232.94	213.12	176.65	211.24	211.24	243.87	179.12	179.12
Hong Kong, China (66)	468.63	0.5	429.78	355.80	430.92	465.69	0.5	3.39	466.21	426.54	353.55	422.78	463.25	580.03	438.95	466.64
Indonesia (27)	126.09	4.7	115.62	95.78	115.94	277.30	1.2	2.44	120.43	110.18	91.32	109.21	274.06	254.90	117.56	202.77
Ireland (17)	385.43	-1.4	353.43	292.63	354.41	372.78	-0.4	2.60	390.92	357.66	296.46	354.50	374.64	394.88	305.64	305.64
Italy (53)	111.77	-3.0	102.49	84.86	102.78	144.18	-1.8	1.65	115.24	105.43	87.39	104.51	146.81	115.27	75.44	76.53
Japan (484)	118.49	-0.8	108.65	89.96	108.95	89.96	-0.7	0.89	119.43	109.27	90.57	108.30	90.57	145.06	107.57	144.56
Malaysia (107)	288.47	-2.5	264.52	219.02	265.26	360.24	-0.6	1.88	295.92	270.74	224.41	268.35	362.42	660.85	277.73	577.33
Mexico (27)	1866.38	-1.5	1711.43	1417.01	1716.18	15810.63	-1.3	1.54	1894.18	1732.96	1436.42	1717.89	16011.73	1898.64	1136.59	1211.16
Netherlands (19)	413.34	-2.1	379.02	313.82	380.07	375.95	-0.8	2.22	422.18	386.26	320.18	382.65	378.89	440.67	307.18	308.55
New Zealand (14)	94.13	-1.5	86.32	71.47	86.56	77.94	-1.0	3.94	95.54	87.41	72.45	86.64	78.71	98.47	83.03	91.64
Norway (41)	366.80	-2.1	336.34	278.48	337.28	352.92	-0.8	1.74	374.64	342.75	284.10	339.78	355.61	374.64	261.95	263.96
Philippines (22)	96.71	0.4	88.68	73.43	88.93	162.91	0.4	1.30	96.37	88.17	73.08	87.39	162.33	214.07	87.66	183.78
Singapore (42)	280.17	0.2	256.91	212.71	257.92	200.89	0.8	1.57	279.59	255.80	212.03	253.54	199.84	448.01	278.20	377.58
South Africa (43)	335.81	-1.7	307.93	254.96	308.78	344.57	-1.5	2.47	341.55	312.48	259.01	309.73	348.85	370.12	301.49	348.12
Spain (33)	254.04	-2.8	232.94	192.87	233.59	287.28	-1.5	2.35	261.45	239.20	198.27	237.09	291.55	277.33	183.60	183.60
Sweden (49)	507.05	-2.9	464.95	384.97	466.24	572.94	-2.0	1.81	522.11	477.86	395.94	473.47	584.52	538.94	390.24	390.24
Switzerland (33)	314.03	-2.2	287.96	238.42	288.78	286.79	-0.8	1.18	321.00	293.69	243.43	291.10	289.50	329.59	231.69	244.72
Thailand (39)	38.99	-2.0	35.75	29.60	35.85	55.76	-1.7	5.02	39.80	36.41	30.18	36.09	56.74	129.94	37.40	115.41
United Kingdom (213)	335.18	-0.5	307.36	254.48	308.21	307.36	-0.3	3.29	336.99	308.31	255.55	305.59	308.31	337.99	256.17	258.03
USA (634)	384.77	-1.2	352.89	292.13	353.81	384.77	-1.2	1.81	389.44	356.30	295.33	353.18	389.44	398.82	283.35	287.94
Americas (814)	352.25	-1.2	323.01	267.44	323.91	296.78	-1.2	1.81	356.41	326.08	270.28	323.20	300.24	365.75	259.46	263.29
Europe (711)	287.07	-1.8	263.24	217.95	263.97	271.18	-0.8	2.35	292.32	267.45	221.68	265.09	273.67	296.25	222.38	222.38
Nordic (150)	445.56	-2.8	408.57	338.28	409.70	440.62	-1.6	1.71	457.68	418.73	347.08	415.04	447.81	464.93	333.26	333.26
Pacific Basin (877)	132.85	-0.7	121.82	100.86	122.16	102.19	-0.5	1.43	133.75	122.37	101.43	121.29	102.70	160.89	127.18	159.95
Euro-Pacific (1588)	197.21	-1.4	180.84	149.78	181.34	165.54	-0.7	1.68	199.92	182.91	151.61	181.30	166.78	209.12	173.55	185.84
North America (757)	374.93	-1.2	343.80	284.65	344.75	374.23	-1.2	1.62	379.36	347.07	287.68	344.02	378.68	389.57	277.20	281.13
Europe Ex. UK (498)	255.26	-2.5	234.08	193.82	234.73	245.49	-1.2	1.83	261.59	239.60	198.60	237.49	248.59	267.07	198.51	198.51
Pacific Ex. Japan (393)	259.22	-0.3	237.70	196.81	238.36	241.74	0.1	3.21	259.96	237.84	197.14	235.74	241.52	320.65	259.02	297.19
World Ex. US (1811)	202.03	-1.3	185.26	153.39	185.79	173.06	-0.8	1.97	204.73	187.31	155.26	185.66	174.86	212.68	176.94	187.69
World Ex. UK (2232)	253.52	-1.3	232.47	192.48	233.12	228.74	-1.1	1.62	256.98	235.11	194.83	233.03	229.14	262.89	211.18	215.30
World Ex. Japan (1961)	332.30	-1.3	304.71	252.29	305.56	324.70	-1.0	1.94	336.80	308.14	255.41	305.43	328.05	344.35	257.42	258.78
The World Index (2445)	260.47	-1.3	238.64	197.75	239.50	233.99	-1.0	1.78	263.79	241.34	200.04	239.21	236.28	268.47	216.15	218.98

 CONSTITUENT CHANGE 20/10/97: Name change: TR City of London Trust to City of London Investment Trust (UK). Latest prices were unavailable for this edition.

Emerging markets: IFC Investable indices

Oct 17

Market: Latin America, Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela, East Asia, China, Korea, Philippines, Taiwan, China, South Asia, India, Indonesia, Malaysia, Pakistan, Sri Lanka, Thailand, Europe/Mideast/Africa, Czech Rep, Egypt, Greece, Hungary, Israel, Jordan, Morocco, Poland, Portugal, Russia, S Africa, Slovakia, Turkey, Zimbabwe, Regions, Composite, Latin America, Asia, EMEA

Latest indices were unavailable for this edition.

4 pm close October 20

NEW YORK STOCK EXCHANGE PRICES

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1, 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

t-new yearly low. P/E price-earnings ratio. ds-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. § Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Oct 17	Oct 16	Oct 15	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7847.03	7938.88	8057.98	8259.31 (6/8)	6391.69 (11/4)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	103.94	104.11	103.89	104.70 (31/7)	101.09 (14/4)	104.70 (31/7/97)	54.99 (1/10/81)
Transport	3254.43	3309.27	3359.27	3359.27 (15/10)	2222.07 (2/1)	3359.27 (15/10/97)	13.23 (8/7/32)
Utilities	242.29	243.90	242.64	245.62 (7/10)	209.47 (25/4)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7958.81 (18146.14) Low 7731.12 (7880.18) (Theoretical♦)
Day's high 7934.21 (8112.74) Low 7795.88 (7856.38) (Actual♦)

Standard and Poors	Oct 17	Oct 16	Oct 15	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	944.16	955.25	965.72	983.12 (7/10)	737.01 (2/1)	983.12 (7/10/97)	4.40 (1/6/32)
Industrials♥	1100.09	1112.87	1127.29	1148.82 (7/10)	865.42 (11/4)	1148.82 (7/10/97)	3.52 (30/6/32)
Financial♥	113.15	114.75	115.22	118.04 (7/10)	90.75 (2/1)	118.04 (7/10/97)	7.13 (4/8/74)
Others							
NYSE Comp.	498.57	502.30	506.89	514.21 (7/10)	389.47 (11/4)	514.21 (7/10/97)	4.64 (25/4/42)
Amex Comp	700.88	708.38	714.34	721.90 (7/10)	541.20 (28/4)	721.90 (7/10/97)	524.20 (16/7/96)
NASDAQ Cmp	1666.85	1699.66	1723.37	1745.85 (9/10)	1201.00 (2/4)	1745.85 (9/10/97)	54.87 (3/10/74)
Russell 2000	449.29	457.16	462.74	465.21 (13/10)	335.85 (25/4)	465.21 (13/10/97)	123.36 (7/12/93)

RATIOS

	Oct 17	Oct 10	Oct 3	Year ago
Dow Jones Ind. Div. Yield	1.70	1.66	1.66	2.12
	Oct 15	Oct 8	Oct 1	Year ago
S & P Ind. Div. yield	1.47	1.48	1.48	1.92
S & P Ind. P/E ratio	25.95	26.18	25.72	23.13

US DATA

MARKET ACTIVITY

Volume (million)	Oct 17	Oct 16	Oct 15
NYSE	624.680	595.978	504.875
Amex	34.825	30.591	26.282
NASDAQ	934.348	846.254	834.115

NYSE	Oct 17	Oct 16	Oct 15
Issues Traded	3,396	3,399	3,404
Rises	608	1,038	1,191
Falls	2,324	1,807	1,648
Unchanged	464	554	565
New Highs	58	186	163
New Lows	53	31	30

NYSE TRADING ACTIVITY — Volume : 624,680,000

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Compaq	15,932,200	69½	-3⅛
Seagate Tch	8,704,000	32	-5⅛
Sears Roebck	8,302,200	46⅛	-1⅛
AT&T	7,708,200	45⅛	+1½
Iomega	7,461,500	28⅛	+2⅛
IBM	6,076,800	95⅛	-4⅛
LSI Logic	5,972,500	24⅛	+⅛
Merck	5,941,000	95	-2⅛
Gen Elec	4,886,100	68⅛	-⅛
Coca Cola	4,774,500	58½	-⅛

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Mac-Gray	13⅛	+2⅛	+28.1
Chyron Corp	5⅛	+1	+22.9
APT Satellite	16⅛	+2½	+17.7
Fst Washingtn	27⅛	+2⅛	+10.5
Downs			
Seagate Tech	32	-5⅛	-14.2
Dynatech	37⅛	-5⅛	-12.3
Reebok	40⅛	-4⅛	-10.4
Teradyne	50⅛	-6	-9.0

NASDAQ TRADING ACTIVITY — Volume : 934,348,000

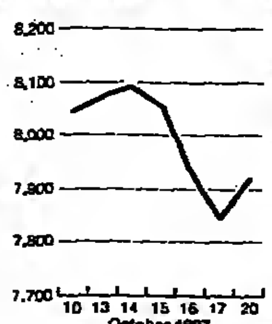
ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Sun Micro	40,606,100	38⅛	-3⅛
Appl Matl	24,834,100	41⅛	-2⅛
Intel	24,484,200	83	-2⅛
Imperial Cr	18,921,200	18⅛	
Ascend Com	17,998,000	34⅛	+1⅛
Dell Cmptr	15,633,300	84⅛	-3⅛
Three Com	11,707,500	49⅛	-1⅛
P Com	11,397,700	22	-6
Microsoft	10,986,300	132⅛	-1⅛
Worldcom	10,582,300	34⅛	-⅛

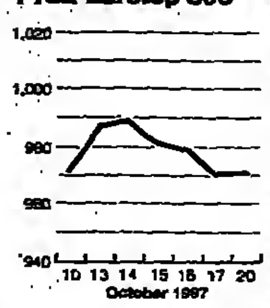
BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Comput Sys	28⅛	+7⅛	+38.2
Infinity Fincl	16⅛	+2⅛	+19.1
Siebel Sys	48⅛	+4⅛	+11.3
Pops Res 6	153½	+14⅛	+10.3
Downs			
P Com	22	-6	-21.4
Aspyt Tech	29	-5⅛	-15.5
Brooks Auto	32⅛	-4⅛	-12.5
Dupont Photo	54½	-7⅛	-12.1

Dow Jones



FTSE Eurotop 300



JAPAN

	Oct 20	Oct 17	Oct 16	1997 High	1997 Low	Since compilation High	Since compilation Low
Nikkei 225	17394.51	17478.42	17707.49	20681.07	17204.70	38915.9	85.25

TOKYO TRADING ACTIVITY — Volume : 285,000,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Canon	4,016,000	3100	-140
Nippon Stl	4,401,000	255	+3
Sakura Bk	4,383,000	545	-5
Bk Tk-Mtsh	4,212,000	1830	-50
Hitachi	3,809,000	1060	-10
NEC Corp	3,750,000	1480	-40
Daiwa	3,359,000	226	+15
Fujitsu	2,341,000	1460	-50
Kawasaki Stl	3,181,000	205	+5
Kawa Hvy	2,922,000	663	+16

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Hakko Chem	410	+58	+16.5
Towa Rl Est	87	+12	+10
Nip Stl Ch	179	+21	+13.3
Maeda Eng	870	+100	+13.0
Downs			
Nihon Kent	468	-100	-17.6
Sun-S	430	-80	-12.2
Advantest	11900	-1200	-9.2
Tokyo Elec	7670	-690	-8.3

FRANCE

	Oct 20	Oct 17	Oct 16	1997 High	1997 Low	Since compilation High	Since compilation Low
CAC 40	2946.71	2958.02	2992.87	3094.01	2256.97	3094.01	984.61

PARIS TRADING ACTIVITY — Volume : 334,941,740

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
AGF	4,684,090	318.4	+83.4
Worms & C	1,035,461	503	+3
Axa-UAP	637,183	405.4	+1.9
B.N.P.	611,303	305.3	-2.8
Rh-Poulnc A	550,257	285.5	-3.0
Elf Aqtne	500,109	746	+2
Paribas	489,698	454	+0.4
Michelin	484,104	344.9	-1.9
Euro Disney	464,256	7.95	-0.05
Total	463,923	640	-9

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
AGF	318.4	+83.4	+35.5
SCAC Delms	1159	+107	+10.2
Finatis	253	+23	+10
Thermal Bg	700	+50	+7.7
Downs			
Imm Plain	188.8	-18.2	-8.8
Ingenico	129.5	-10.5	-7.7
Interbail	171.2	-13.8	-7.5
SEB	714	-49	-6.4

GERMANY

	Oct 20	Oct 17	Oct 16	1997 High	1997 Low	Since compilation High	Since compilation Low
DAX	4040.75	4061.50	4118.22	4438.93	2848.77	4438.93	931.18

FRANKFURT TRADING ACTIVITY — Volume : 8,305,057

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Siemens	1,737,354	117.9	-1.7
Bayer	1,713,760	68.8	+1.45
Dresdne Bk	1,083,692	121.8	-1.15
Lufthnsa Rg	955,778	32.3	+0.28
BASF	835,681	61.15	+1.05
Dt Telecom	565,500	33.3	+0.3
Hoechst	503,848	75.1	-0.15
Dresdnr Bk	488,289	80.5	+0.05
Commerzbk	479,101	63.2	-0.5
Bayer Vrns	406,947	102.1	-1.8

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Fielmann Pf	40.95	+2.85	+7.5
Strabag Pf	135	+8	+6.3
Massa	175	+7	+4.2
SGL Carbon	268	+19	+3.9
Downs			
K&M Mobel	17.9	-1.05	-5.5
Deutz	13.12	-0.68	-4.9
Linotype H	99.9	-5.1	-4.9
Praktiker	28.1	-1.4	-4.7

UK

	Oct 20	Oct 17	Oct 16	1997 High	1997 Low	Since compilation High	Since compilation Low
FTSE 100	5211.0	5271.1	5287.9	5330.80	4056.60	5330.8	986.9

LONDON TRADING ACTIVITY — Volume : 493,300,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Brands Hch	12,440,520	182½	
BT	9,316,720	472	-½
Monamt 086	8,189,687	86	+½
Nat West	8,051,547	953	-19½
Woolwich	7,177,448	307⅛	-13⅛
Redland	6,812,593	342½	+½
Shell T&T	6,518,945	458	-1½
Millwall	6,307,484	1⅛	
Sunleigh	6,280,000	1½	+⅛
Wiggins	6,265,121	12⅛	

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Dunham-Bush	5⅛	+2	+53.3
PSD	380½	+34	+9.5
Marbella Mr	58½	+4½	+8.3
Hambros	270½	+12	+4.6
Downs			
Active Img	9⅛	-1½	-13.6
Sperati (CA)	720	-87½	-10.8
Haggas (J)	80	-19	-19.0
Etam	126	-14	-10.0

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	949.00	953.00	+4.35	953.50	948.00	82,451	189,438
Mar	962.75	963.75	+4.60	963.75	960.50	378	4,229
Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	17330.0	17340.0	-110.0	17460.0	17210.0	16,645	163,825

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Oct	2950.0	2953.0	-19.0	2971.0	2933.0	13,269	27,829
Nov	2959.0	2961.0	-19.0	2974.5	2946.5	1,220	14,904
DAX							
Dec	4050.0	4092.0	+31.5	4098.0	3995.5	18,631	61,905
Mar	4086.0	4130.0	+31.5	4130.0	4036.5	250	3,098

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Oct	2480.00	2498.00	-3.00	2513.00	2475.00	9,673	19,193
Nov	2491.50	2497.50	-11.25	2525.00	2486.50	3,030	4,891
SOFFEX							
Nov	5720.0	5785.0	+17.0	5800.0	5686.0	4,098	20,725

WORLD MARKETS AT A GLANCE

Country	Index	Oct 20	Oct 17	Oct 16	1997 High	1997 Low	Yield	P/E
Argentina	General	24032.31	24626.61	25237.31	25426.47 16/10	18237.37 2/1	2.98	20.9
Australia	All Ordinaries	2639.4	2645.6	2653.0	2779.20 25/9	2282.20 1/4	3.43	15.9
	All Mining	747.5	750.7	754.9	987.10 24/2	747.50 20/10		
Hungary	Bux	7994.07	7946.35	7864.35	8483.80 6/8	4291.30 6/1	na	na
India	BSE Sens.	4154.84	4106.26	4077.05	4548.02 5/8	3225.34 2/1		
	Crsil 500	752.19	747.55	742.24	843.28 5/8	622.71 2/1	na	na
Poland	WIG	17873.2	17867.5	18112.1	18339.40 18/2	14421.60 6/1	1.35	12.3
Portugal	BVL 30	3612.75	3637.91	3618.57	3886.61 3/10	2165.57 2/1	1.64	25.9
	PSI 20	8423.56	8459.82	8438.63	8808.52 3/10	5152.34 2/1		
[illegible]								

Australia: Eight consecutive falls but bargain-hunting and speculation about interest rate cut lifted stocks off early lows.
Hungary: Positive economic fundamentals and strong expected corporate earnings growth underpinned market's advance.
India: Central bank expected to cut interest rates today when it issues credit and monetary policy report.
Poland: Market moved sideways in light volume. 10 of the 30 shares quoted in the WIG index did not trade.
Portugal: Market lifted off early lows by Wall Street's bright opening, propped up by buoyant mobile phone operator, Telecel.

[illegible]

NASDAQ NATIONAL MARKET

4 pm close October 20

[illegible]

NASDAQ NATIONAL MARKET

[illegible]

AMEX PRICES

4 pm close October 20

[illegible]

EASDAQ

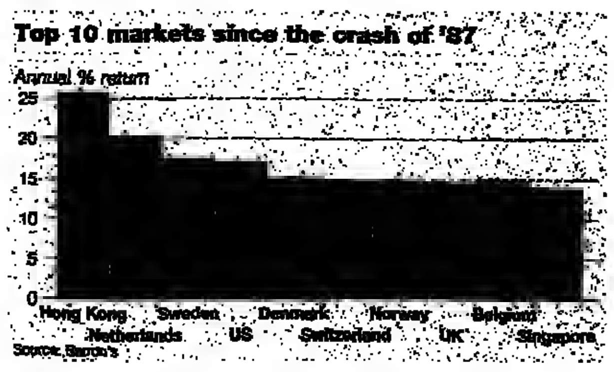
EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$2.875	-0.125	35330	8.25	2.875	Lernout & Hauspie	US$46	-1.5	7710	58.625	25
Artwork Systems	US$9.875	-0.125	12500	11.125	7.875	Melexis	US$8	+0.0625	63100	9.125	7.9375
Chemunex	FFr12.5		0	18	10	Mercer Int'l	US$11.875	-0.125	0	12.875	8.125
Dobcman Holdings	GBP5.4	-0.15	6500	7.15	4.5	NTL	US$26.625		0	27.5	20.5
Dr Solomon's ADS	US$29.75	-0.25	500	32.375	16.875	PixTech	US$3.75		0	8.125	3.375
EDAP TMS	US$7.75	-0.3125	0	9.125	6.5	Schoeller-Bleckmann	Sch1680	+5	200	1692	900
Espace Prod. Int.	FFr109.38	-2.25	8000	117	109.38	Topcall Int'l	Sch4704	-86	540	5000	3065
Esprit Telecom ADS	US$5.75		160	12.25	5.375	Turbodyne Technol	US$5.38	+0.33	0	6.25	3.73
Innogenetics	US$14.875	-0.125	138055	15.75	9.875						

Prices for 20/10/97. Please note that mid prices are now used to calculate highs and lows. Information about EASDAQ can be found on the Web site at HTTP://WWW.EASDAQ.be EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9890)

Asia suffers most from 'anniversary blues'

WORLD OVERVIEW



Asia was the main casualty of "anniversary blues" yesterday as world markets made it through the third Monday in October in much better shape than they did a decade ago, *writes Philip Coggan.*

The day began nervously after Wall Street's 200-point decline on Thursday and Friday of last week, prompted by fears that the forces underpinning the US market – strong corporate earnings and low inflation – might be coming to an end.

Asian markets, plagued by currency and economic worries, needed no prompting from memories of Black Monday to go into reverse. Hong Kong, sensitive to US interest rates, and Taiwan both fell 4 per cent, while Korea, Malaysia and Thailand each lost 3 per cent.

"Overweight foreign investors continue to lead the outflow of capital and are unlikely to return until they are convinced that the appropriate policy responses have been pnt in place," warned Foreign & Colonial Emerging Markets.

European markets braced themselves for bad news at the opening but the losses were subdued, and later reversed, with the exception of London, which had to contend with a new trading system and doubts about sterling's role in monetary union. When Wall Street opened, there were some modest early losses but, in the absence of any significant US economic statistics, the Dow Jones Industrial Average rallied later in the morning.

But it would be wrong to think that, with the 10th anniversary of the crash out of the way, markets have nothing to worry about. Two recent analysts' notes pointed to China as a potential source of trouble.

Albert Edwards, of Dresdner Kleinwort Benson, and Joe Rooney, of Lehman Brothers, cited a slowdown in domestic Chinese economic growth. Mr Rooney thought the slowdown would pose a threat to the Hong Kong stock market which, as the graph shows, has been the world's best performer since the 1987 crash.

"If the great growth story of mainland China is to splutter, it will be Hong Kong that stands to suffer most," he wrote.

Mr Edwards took an even wider view, saying that the Chinese might be tempted to revive growth by devaluing the yuan, as they did in 1994.

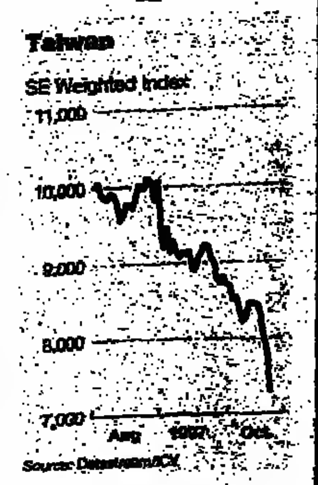
"If the Chinese choose this option, Asean currencies and the yen would undoubtedly plunge [along] with the yuan, leaving the buoyant US and recovering European economies high and dry and staring *deflation* in the face," he said.

Just to cheer everyone up, he added, "Communist China may yet have the last ideological laugh and bring about *Marx's* crisis of capitalism".

London market, Page 38

EMERGING MARKET FOCUS

Taiwan stocks enter tail-spin



Taiwan's stock market was due for a correction, but few thought it would happen this fast – or this far – and fewer still are predicting where it will end.

Jitters over US high-technology stocks and south-east Asia's currency woes have conspired to send Taiwan shares into a tail-spin, led by the electronics sector which posted gravity-defying rises earlier in the year.

Heavy selling in the retail-dominated market sent the benchmark index plunging nearly 4 per cent yesterday to close at 7316.78, down nearly 28 per cent from a seven-year high of 10,116.74 reached on August 26.

Policy uncertainty accelerated the slide, as investors confused over the stance of monetary authorities lost confidence in the government's ability to manage the financial situation.

After shelling out some US$5bn in recent months to maintain the Taiwan dollar at T$28.5 against the US dollar, the central bank ultimately found the position untenable and, without warning, abandoned its defence on Friday.

The Taiwan dollar has since fallen nearly 7 per cent to a 10-year low of T$30.45 at yesterday's close and is expected to test T$31 in the near future.

Taiwan had thought itself immune to the currency shakeout across Asia, but in the end the forces affecting the region's currencies proved stronger than expected. The about-face took many investors by surprise, coming on the heels of protests by central bank officials that the currency was "undervalued" and repeated promises to defend the unit against "speculators".

But the central bank probably did itself a favour by waving the white flag – despite a short-term loss of credibility – instead of putting up a prolonged fight in a battle that would have cost more to win than to lose. The central bank's defence raised interest rates and threatened the recovering economy – a price the government was not willing to pay.

A lot of south-east Asian countries would like to be in Taiwan's position. The economy is strong, especially in comparison with many of its neighbours. Foreign reserves stand at about US$80bn; economic growth is running at more than 6 per cent and current account and trade surpluses are healthy.

"The impact of south-east Asia's financial *crisis* should be very, very limited. *Our problem is not* serious at all," Shen Yuandong, the central bank governor, said on Friday.

The central bank's looser monetary policy is more favourable to economic growth and to the stock market. Financial markets should stabilise before long. The market may still have further downside in the near term, but traders expect it to bottom out soon.

"I think investors might be over-reacting," said Vaughn Chang, of Taiwan fund manager Jupiter. "I see this as a great buying opportunity."

Laura Tyson

Dow rallies on earnings optimism

AMERICAS

US shares rallied gently as technology stocks recovered *from last* week's *widespread* selling and invastors digested fresh merger and earnings news, *writes John Labate in New York.*

By early afternoon tha Dow Jones Industrial Average was 14 higher at 7,861.03. The Standard & Poor's 500 index was 2.52 ahead at 946.68, while the technology-weighted Nasdaq composite index added 9.54 at 1,676.39.

Leading the Dow higher was AT&T with the release of better-than-expected earnings and news that the telecoms leader had selected a oew chief executive.

Coca-Cola, whose *own* chairman and chief executive died *over the weekend*, fell $⅞ at $57⅞. Retailer Sears Roebuck lost 1\frac{13}{16}$ to 44\frac{13}{16}$ after a Smith Barney analyst cut fourtb-quarter net income expectations.

Technology shares moved higher, led hy computer-related stocks as investors bid up the price of IBM and Microsoft in the bours before both companies' earnings releases, expected later in the afternoon. IBM rose 1\frac{15}{16}$ to 97\frac{3}{16}$ while Microsoft gained $2¼ at $134½.

But recent buying does not rule out further downturns in technology shares, *according to some* brokers. "I think hy and large the market is *coming off with a lukewarm* response to earnings and that's got to be *concerning*, with the supply of secondary and initial offerings coming," said Michael Clark, at Credit Suisse First Boston in New York.

Morning news of a $9.8bn takeover hid for ITT by Starwood Lodging sent shares of ITT up by more than 8 per cent or $5¾ to $76¼. Competing bidder Hilton Hotel's ahares were *unchanged* at 32\frac{7}{16}$, while Starwood's shares *rose* $⅝ to $57¼.

Internet leaders, Amazon.com and Netscape Communications surged on news of an exclusive deal between the two companies. Amazon's shares jumped more than 5 per cent to 2\frac{7}{8}$ at 45\frac{15}{16}$ while Netscape shares rose 14 per cent to $39⅞.

Banking stocks were mostly lower with the bond market trading quietly. *Chase Manhattan fell* $2¼ to $119⅝. A $3bn merger of *Banc One* with *First Commerce* sent First Commerce's *shares* up $$\frac{5}{16}$ *to* $58¾ while Banc One fell $$\frac{11}{16}$ to $54¼.

TORONTO edged lower in spite of a surge of more than 6 per cent for market heavyweight Seagram following news of a link-up with US media group HSN. The 300 composite index was off 9.60 at 7,026. 90 at noon.

Seagram was the main feature of the morning, jumping C$3.00 to C$48.00 after announcing a deal with HSN. Seagram is taking a 45 per cent stake in HSN in return for injecting its Universal televisioo operations into the US company.

Golds drifted lower on the back of a dull opening for *the bullion price*, Barrick came off 55 cents to C$31.00 and Placer Dome lost 30 cents to C$24.65. Banks were mixed. Bank of Montreal dipped 5 cents *to* C$57.60, but Toronto Dominion added 20 cents at C$47.60.

Solid gains in São Paulo

SAO PAULO rallied strongly in largely technical trade as dealers scrambled to position themselves in the run-up to the options expiry. By midsession, tha Bovespa index had comfortably restored Friday's losses, rising 163 *points or 1.3 per cent* to 12,650.

MEXICO CITY moved lower at the opening bell but quickly pulled ahead amid optimistic talk about the upcoming third-quarter results season.

"Everyone is gatting excited about the quarterly results. These should start to roll in later this week," said one broker.

At midsession, the IPC index was np 16.06 at 5,291.60. Telmex was the most active stock of the morning, adding 0.05 centavos to 20.20 pesos.

SANTIAGO moved lower in light volume with the IPSA index off 0.06 at 120.98 at midsession. Power shares dominated trading with Enersis slipping 2 pesos to 277 pesos on uncertainty over the group's links with Endesa of Spain.

Fast start for France Telecom

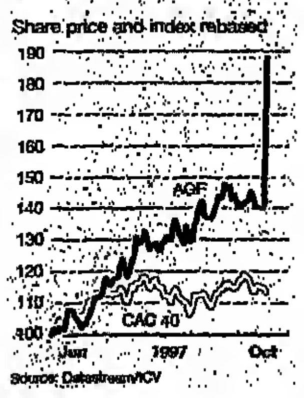
EUROPE

Trading in **PARIS** centred almost exclusively on France Telecom and AGF, with the former making a dramatic stock market debut and hid target AGF surging 35 per cent as dealings restarted.

France Telecom, which is dne to entar the CAC 40 index on November 20, raced ahead to a session high of FFr215 before ending at *FFr206.5, against flotation* prices of FFr182 for retail investors and FFr187 for institutions.

Activity in the shares set a record for a single session. They racked up turnover of FFr8.3bn as index tracking funds scrambled to top up their portfolios ahead of next month's changes to the CAC 40 index.

Insurance leader AGF jumped FFr83.40 to FFr318.4 on 4.7m shares traded to end comfortably above the FFr300 value of the hostile *takeover* approach from Generali of Italy. "There is little doubt that the market is *looking* for a counter-bid," said one trader.



Casino, tbe *supermarket* chain which is fending off an unwelcome takeover bid from Promodès, fell FFr9.00 to FFr346.5 after family shareholders appeared to close ranks against the hid approach. Promodès lost FFr22.00 to FFr2.040.

At the close, the CAC40 index was down 11.31 at 2,946.71.

FRANKFURT moved gently higher, boosted by a firmer dollar and a solid opening on Wall Street. The Ibis-indicated DAX index finished up 20.09 at 4,069.25, witb analysts saying the market would track New York ahead of the Bundesbank'a council meeting on Thursday.

Automotive stocks were in the spotlight as Daimler and MAN issued bullish statements about their truckmaking operations. MAN was up DM1.90 at DM528.40 after it predicted improved results for this year. Daimler fell 40 pfg to DM132.15 despite predicting an upturn at its US trucks unit.

MILAN was in an optimistic mood with several heavyweight stocks turning in strong performances, but *overall gains were limited in* a listless market. The Mibtel *index rose 74 to 15,801 in* thin volume.

Telecom Italia rose L159 to L11,320 on the first day of its public offer, which runs until Friday. Analysts said the market was anticipating a very strong retail take-up and that sentiment had been boosted by the success of last week's placing of France Telecom.

"There has been a very strong advertising campaign and everyone expects the sale to be as popular as Eni," said Marco Nascimbeni at Merrill Lynch.

Olivetti ended up L13 at *L991*, having been *as* high as L1,004, on rumours of a *rights issue* at *L1,000* with warrants.

The stock has been rising on hopes of a recapitalisation since Olivetti announced the link-up last month between its Omnitel subsidiary and Mannesmann of Germany.

Generali continued Friday's decline, losing L263 to L38,933 on fears that it might have to increase its offer for AGF of France. AGF rejected Generali's bid at the end of last week.

AMSTERDAM ended modestly higher thanks to stronger bonds and further gains for the dollar which spilled over into solid improvements for an number of international stocks. The AEX index added 2.78 at 907.37.

Philips *rose Fl 2.50 to* Fl 162.50 ahead of Thursday's third-quarter results and there was strong demand for Unilever following news of a near $1bn ice-cream acquisitioo in Brazil. The shares gained Fl 2.40 to Fl 109.90.

Financials were weak. ABN Amro came off 30 cents to Fl 39.60 and Fortis Amev 40 cents to Fl 80.60.

MADRID spent most of the day in negative territory before turing higher after Wall Street's strong start. The general index closed 0.31 higher at 587.01 in very light volume.

Endesa's nervy privatisation offer was back in the *spotlight* as the shares lost Pta75 to Pta2,685 on news that retail orders for shares in the offer could still be withdrawn today, although most analysts said they did not expect withdrawals.

"The books officially closed on Friday, so the news that retail investors could withdraw orders today was bound to cause a bit of panic," said Davina Bridgeman at James Capel.

ZURICH ended a relatively volatile session with a rise of 25.6 to 5,777.2 on the SMI index, where the day's trading range was 106 points.

Drugs stocks led the activity charts with Roche gaining SFr200 to SFr12,730. Novartis, which puts out nine-month sales figures on Thursday, gained SFr1 to SFr2,250 after CSFB stepped up earnings estimates for next year and in 1999 by some 7 per cent.

Among banks, UBS slipped SFr29.00 to SFr1,695 as market hopes for news of management changes were said to have receded.

Written and edited by Jeffrey Brown, Jonathan Ford and Steve Conn.

FTSE Actuaries Share Indices — European Series

October 20

National & Regional Markets	Ecu index	Day's %	change points	Yield gross %	xd adj	Total retn (Ecu)
FTSE Eurotop300	971.39	+0.07	+0.67	2.28	0.06	975.82
FTSE Eurotop 100	2265.38	+0.68	-15.46	-	-	-
FTSE Eurotop 300 Regions						
300 UK	986.49	-0.03	-0.30	3.12	0.15	995.24
300 Ex-UK	963.36	+0.13	+1.23	1.79	0.00	965.39
300 Eurobloc	952.95	+0.04	+0.38	2.00	0.00	955.84
300 Ex-Eurobloc	985.40	+0.09	+0.89	2.48	0.09	990.80
FTSE Eurotop 300 Economic Groups						
Resources	993.05	-0.07	-0.69	2.73	0.00	1005.23
General Industries	980.13	+0.06	+0.58	1.88	0.00	981.45
Consumer Goods	935.36	+0.28	+2.62	1.91	0.13	938.47
Services	975.13	+0.09	+0.74	2.22	0.00	978.31
Utilities	988.08	+0.13	+1.29	3.17	0.00	971.60
Financials	978.97	-0.04	-0.38	2.22	0.11	984.45

Base value 1000. More information on http://www.ftse.com. 'FTSE' and 'Footsie' are registered trade marks of the London Stock Exchange and The Financial Times. 'Eurotop' is a registered trade mark of the Amsterdam Stock Exchange. FTSE Eurotop indices are compiled by FTSE International. © FTSE International Limited 1997. All rights reserved. Base Weighting change effective 23/10/97. Lufthansa (100% to 40.95%) (Germany) (Services).

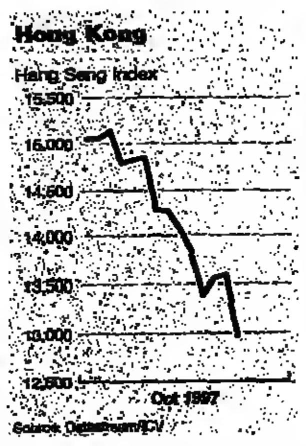
SOUTH AFRICA

Johannesburg rallied strongly following a central bank reduction in interest rates. Trading volumes were dull and golds stayed weak, but the broad market moved ahead strongly.

At the close the all-share index was up 37.3 at 7,294.3, with industrials advancing 62 to 8,851.4. Financials were also upbeat, notably banks, which responded positively to the rate cut. Golds eased 2.5 to 1,019.0.

Rate rise fears hit Hong Kong

ASIA PACIFIC



Talk of an imminent interest rate rise sent HONG KONG sharply lower. The Hang Seng index fell through the key support level of 13,000 to end 630.13 or 4.6 per cent down at 12,970.88. Turnover was HK$17.3bn.

News that leading banks were lifting mortgage rates took a savage swipe at sentiment, dealers said. HSBC fell HK$6 to HK$227 and Hang Seng Bank HK$4.75 to HK$84.25. Sun Hung Kai Properties lost HK$5.25 to HK$80.00.

The Hang Seng China Enterprises index was down 60.55 at 943.55, and the China-Affiliated Corporations index lost 178.83 to 2,572.25.

TOKYO was depressed by knock-on effects from the weak trend on Wall Street and the Nikkei 225 average lost 183.91 to close at 17,294.51, *writes Bethan Hutton.* The day's trading range was 17,230.77 to 17,454.85.

Activity was low ahead of today's release of a government economic package. Dealers said the general trend was downwards since the package was not expected to contain anything likely to have a strong positive impact on the market.

The hroader-based Topix index dropped 13.01 to 1,347.75, while the capital-weighted Nikkei 300 index closed 3.21 points lower at 266.15. However, rising shares outnumbered losers by 592 to 501, with 163 unchanged. Volume dropped from 369.38m shares to an estimated 260m.

In London, the ISE-Nikkei 50 index rose 5.35 to 1,586.43.

The main sectors which could benefit from the government measures made gains. Construction companies firmed, with Kumagai Gumi, which announced large write-offs and forecast a Y200bn loss for the year after the market closed, up Y1 at Y103. Kajima rose Y18 to Y550, Taisei Y13 to Y414, and Obayashi Y7 to Y685. Real estate stocks also improved.

Shipping companies bounced back on news of a resolution to the US-Japan dispute over port practices. Nippon Yusen gained Y6 to Y414, Mitsui OSK Lines Y5 to Y173, and Kawasaki Kisen Y10 to Y157.

High-tech issues were *hit* by the sell-off of high-tech stocks in New York. Canon was the day's most heavily traded issue, *falling Y140 to* Y3,100. NEC lost Y40 to *Y1,480*, Hitachi *Y10 to Y1,060* and Fujitsu Y50 to Y1,460.

In Osaka, the OSE average dropped 136.41 to 17,920.48, on volume of *10.98m shares.*

BANGKOK fell steeply following the resignation *of the* finance minister and talk of an *imminent cabinet reshuffle*. The SET index dropped 16.13 or 3.1 per cent *to 509.51.*

SEOUL plunged to a new low for the year on *news of* trouble at a large retailer *and scepticism* about a package of market-boosting measures announced by the government last week.

The composite index shed 19.07 or 3.3 per cent to stand at 565.64, its lowest level since October 1992. Losers outnumbered gainers by a record 803 to 57, with 353 halted at their limit lows.

Retailer New Core Group, South Korea's 25th largest conglomerate, shocked the market when the unlisted group revealed it was negotiating with its main creditor bank for loans to allow it to meet payments on promissory notes.

Small and medium-sized companies *fell* sharply on worries about spreading *cross-defaults* in the corporate sector.

KUALA LUMPUR closed 3.3 per cent lower on negative sentiment *as local* brokers said Friday's budget *had received* a clear thumbs down from foreign investors. The *composite index* fell 26.83 to 767.97.

International investors were concerned the economy was *still growing too fast* and that measures announced *to slow it down* were insufficiently draconian, said one fund manager.

Venezuela

Fiscal and social reforms have been producing results, but the weaknesses of a minority government are emerging, says Stephen Fidler

Oil and a policy switch put economy on track

When US President Bill Clinton stepped on to Venezuelan soil last week he was marking what is likely to become an increasingly important relationship. Venezuela overtook Saudi Arabia last year as the largest exporter of oil to the US, supplying some 18 per cent of its imports. As a giant investment programme gathers pace, Venezuela could be producing 7m barrels per day 10 years from now, and be providing 30 per cent of US imports.

Venezuela has proven oil reserves of 73bn barrels, and oil in situ in the country's Orinoco belt amounts to 1,300bn barrels, the state oil company Petróleos de Venezuela (PDVSA) estimates. "Sixty years ago we thought we had oil left for another 10 years; now, for all practical purposes, our reserves are infinite," says Ramón Espinasa, PDVSA's chief economist.

The company has embarked on a projected $73bn investment programme until 2007, $28bn of which should come from private companies. This has brought oilmen down to Venezuela in droves. New daily US airline flights from Houston and Dallas are full. "There is no better place in the world for an oilman to be than in the lobby of the Tamanaco Hotel in Caracas on a Monday morning," enthuses Bernard Wheelahan, president of Shell Venezuela.

This reopening of the oil sector has contributed to a turnaround in the Venezuelan economy. After a four-year slump, growth has returned to Venezuela and the economy is likely to expand by about 5 per cent this year.

But oil is only part of the story of the return to growth. The rest has to do with a monumental about-turn by President Rafael Caldera. The 81-year-old Mr Caldera, president in Venezuela's booming 1970s, came to power again in early 1994 vowing to row back on the limited market reforms that had taken place until then. He assumed office in the early stages of a serious banking crisis that would cost 15 per cent of gross domestic product to resolve.

As the government pumped money in to shore up the banks, depositors fled the system and placed money abroad, provoking a run on the Venezuelan currency, the bolivar. Mr Caldera responded by imposing price and exchange controls to shore up the exchange rate, but they predictably proved ineffective to prevent the outflows.

Foreign exchange reserves had slumped and the bolivar had lost two-thirds of its value in the black market before Mr Caldera was persuaded by his ministers to relent. The Agenda Venezuela, a fiscal tightening backed by the International Monetary Fund combined with other proposed structural and social reforms, was launched in April last year and produced a surprisingly rapid turnaround in investor sentiment.

Since then, the bolivar has been steady and Venezuela's foreign exchange reserves have risen to more than $18bn as investors, seeing no further fear of devaluation, have pulled money in from abroad. With the economy moving ahead, unemployment has begun to fall.

Mr Caldera is credited with calming seething social tensions since he took office, and military discontent which led to two failed coup attempts has been soothed by big pay rises. However, the president's approach is described sarcastically by Humberto Calderón Berti, a former oil minister and possible 1998 presidential contender, as "government by collapse".

Asked whether he could have lowered the cost of the reforms by enacting them earlier, Mr Caldera is unrepentant. "That's what people who don't understand the situation say. Had they been taken earlier they would have failed completely. A fundamental condition for them to work was that people accepted them, and they wouldn't have done that earlier," he said.

The measures, which included a sharp rise in petrol prices which had been considered socially explosive, provoked minimal popular protest. Partly as a result, the Venezuelan political debate has become less ideological. Politicians are no longer afraid to talk of market-oriented solutions to economic problems.

"In a globalised world economy we have to live by the rules of the game," says Teodoro Petkoff, the planning minister whose own odyssey from a 1960s anti-government guerrilla symbolises the transformation.

So far, however, only a limited amount of this talk has been converted into action. An important labour market reform has been passed, backed by a tripartite commission the government has established with trade unions and employers. This has overturned an expensive system of severance pay which was forcing increased migration of employment to the informal sector.

The commission is now working with legislators on a reform of the social security system, aiming to replace the current collapsed scheme with a mixed private-public solution.

Other proposed legislation, for example to extend privatisation, to reform the state, to improve the budget process and to overhaul the corrupt judiciary, has become bogged down by Venezuelan realpolitik, as the vested interests challenged by the reforms mobilise their political support.

This limited progress is due in part to the weakness of Mr Caldera's minority government. That weakness can only become more marked as legislators try to distance themselves from the unpopular president as the long unofficial campaign towards the December 1998 presidential elections begins.

The front-runner among the would-be candidates is a former Miss Universe, Irene Saez. Ms Saez, mayor of a Caracas suburb, exemplifies the decline of Venezuela's bipolar political party system. Copei, the Christian democratic party racked by division in recent years, has changed its statutes to allow it to run outside candidates – and has been talking to Ms Saez. According to Alfredo Keller, a political analyst, Acción Democratica, the main political force in the land with 1.4m members, may also end up looking for an outside candidate.

Ms Saez's public statements – according to Mr Keller, voters see her as kindly and able to restore public order – do not give many clues about what she would do as president. Political analysts say Venezuela's shrewd machine politicians may see her as a tabula rasa on to which they can write their own political projects.

The agenda she or whoever is elected will face will be a long one. The problems of managing Venezuela's changeable economy remain. The extent of the government's problem in coping with the volatile returns from oil is graphically illustrated by Ricardo Hausmann, a former planning minister who is now chief economist at the Inter-American Development Bank. "In 1997," he says, "the price of the Venezuelan oil basket has moved from $15 to $21 a barrel. Since a dollar on a barrel is equivalent to 1.2 per cent of GDP, the fluctuation this year has been 8 per cent of GDP. This is the difference between a solid and an untenable fiscal position".

Changing this will require a new institutional relationship between government and the oil sector, one that prevents the authorities from blowing the windfall gains made from higher oil prices immediately into the domestic economy, he and others argue.

Mr Espinasa at PDVSA

Continued on Page 2

- Area: 912,050 sq km
- Official language: Spanish
- Population: 22.05 million (1996 estimate)
- Currency: 1 Bolivar = 100 centimos; October 10 1997 $1 = 498.275 bolivars
- Main towns and population (1990): Caracas (capital) 2.8m; Maracaibo 1.4m; Valencia 1.0m

Constitution

- Form of government: Congressional system headed by the president. Venezuela is a federal republic, comprising 72 federal dependencies, 22 states, two federal territories and one federal district
- The executive: The president is elected for a non-renewable five-year term and appoints a Council of Ministers; Rafael Caldera won the presidential election on December 5 1993 and took office in February 1994
- National legislature: Bicameral Congress: a directly elected 207-member Chamber of Deputies and a 52-member Senate, to which two members are elected by direct adult suffrage from each state and the federal district, plus others to represent "minorities". Former presidents are members of the Senate for life
- Legal system: Supreme Court at apex of court system; judges and magistrates elected by both chambers of Congress
- National elections: December 5 1993; next elections due by December 1998
- Main political organisations: The president's party, Convergencia Nacional (CN), which has 19 seats in the Chamber of Deputies and five in the Senate; Acción Democratica (AD); Comité de Organización Política Electoral Independiente (Copei); Movimiento al Socialismo (MAS); La Causa R (LCR)

Economic summary

	1997 Estimates	1998 Forecasts
Total GDP, nominal ($bn)	92.7	114.5
Real GDP growth (annual % change)	5.0	5.7
GDP per head ($)	4,102	4,956
Inflation (annual % change in CPI)	42.0	25.0
Unemployment rate (% of workforce)	10.5	9.5
Foreign exchange reserves ($bn)	14.9	17.6
Budget balance (% of GDP)	1.0	0.0
Gross external debt ($bn)	30.9	28.2
Debt service (% of GDP)	5.0	4.6
Three month interest rate (%)	22.0	21.0
Current account balance (% of GDP)	3.6	2.5
Merchandise exports ($bn)	21.4	23.5
Merchandise imports ($bn)	12.7	15.3
Trade balance ($bn)	8.7	8.5

Main trading partners (share of total trade to world, 1995)

Exports		Imports
49.2%	US	42.1%
6.4%	Colombia	7.6%
3.9%	Brazil	n/a
2.6%	Germany	4.9%
2.2%	Japan	4.2%

Sources: Ing Barings, EIU, Datastream/ICV

IN THIS SURVEY

Graphics: Steven Bernard, Robert Hutchison
Design: Philip Hunt
Production Editor: Ian MacDonald

INTERVIEW WITH PRESIDENT RAFAEL CALDERA • by Raymond Colitt and Stephen Fidler

'The crisis of mistrust was very serious'

The Venezuelan leader talks of his administration's achievements and his thoughts on the forthcoming elections

Q: The economic measures your government took were a radical departure from the policies of its first two years and implied certain sacrifices for the Venezuelan people. What convinced you to take this new path?
A: It was essential to achieve economic stabilisation and pave the way for the reactivation of the economy. The [previous] efforts had been considerable bnt did not achieve all the desired results. We had faced a financial sector crisis which, experts say, was the – or one of the – most important in the world, in relation to GDP - let's say 16 per cent of GDP, a crisis of more than half of the financial sector; a lack of confidence produced a run on the currency.
The financial rescue of the state deposit guarantee fund [Fogade] was intended to alleviate the situation of the depositors. They received the money, went to the central bank and bought dollars, which appeared to be the only thing stable. The crisis of mistrust was very serious and, of course, required a definitive plan of measures, some of them very austere, and harmful to the living conditions in many households. But the people understood that it was necessary.
I believed in the measures and they produced results. But I knew the price we would have to pay for the economic stabilisation and recovery plan to produce satisfactory results. One of the most audacious measures was the floating of the currency after two years of foreign exchange controls. Critics forecast a disaster and a bolivar that would rise sky-high. In the end, the free exchange rate was less than the previous parallel rate. The Agenda Venezuela was announced and its principal objective, the recovery of confidence, achieved.

Q: Do you think the cost of the measures could have been less had you taken them earlier?
A: That's what those who do not understand the situation say. Had they been taken earlier they would have failed completely. A fundamental condition for them to work was that the people accept them, and they would not have done so earlier.

Q: Because of the socio-economic situation and the political instability of the previous years?
A: There had been tremendous confusion. Mr Michel Camdessus [managing director of the IMF], whom I met at the Hemispheric Summit in Miami in 1994, said that anywhere else the crisis that we went through would have provoked an unimaginable tragedy. We were acting to contain the situation, which was getting worse every day. The people realised that, and when we took the measures the general reaction was positive. It's not that they were happy for the price they had to pay, but they understood it was necessary.

Q: You mentioned some of the achievements of the Agenda Venezuela. What have you not achieved?
A: In our opinion the achievements have been considerable, albeit not in all areas. Fiscal equilibrium was difficult to reach, as is total control of inflation. We couldn't sustain the levels we would have liked to because we considered the social situation. We had to spend more than a pure, orthodox economist would have. The wage increases of the entire public sector were considerable, very close to 100 per cent I believe. This was a question of justice, to compensate with a sense of equity the burden we were placing on them. Of course, this affected inflation.
Another aspect is that the social programmes of the Agenda Venezuela are not being carried out to the extent we would like because they require certain organisation and distribution. They are moving ahead, but not at the speed that we would have liked to.
Another area where we have not advanced to the extent we would have liked is state reform, which implies a considerable reduction in the number of public sector employees. This presents two problems. One is the social impact. Firing the father of a family does not improve the social situation; it makes it worse until he is reincorporated into another activity of the economy. The other is the redundancy cost itself because we have labour laws that we respect and defend. These require payments in order to reduce the public sector payroll. State reform is difficult because it depends not only on the executive but also on the legislature, judiciary and the unions, which in Venezuela are an important factor.
Another aspect where we would like to have achieved something more positive, and where thus far we have only been able to heighten public awareness, is the reform of the judiciary. One of the weak points of our democratic state is undoubtedly the judiciary, whose functioning has deteriorated over the years. We have insisted in our proposals on reform of the judiciary, but they require more support by the political groups that dominate the legislature.
When I took office on February 2 1994, pubbc opinion demanded I do something similar to that of President Fujimori in Peru, that I dissolve parliament and the supreme court and call a constitutional assembly so as to implement the necessary reforms. Opinion polls indicated that close to 80 per cent of the population favoured this. I was aware what this would have meant for the future of the country because I have loved my country very intensely and studied its history of the last century, and I resisted.
I remained within the constitutional framework. As a result, the fight to tackle the country's problems without solid support in parliament has been more difficult. But I can say with satisfaction that the democratic institutions have been preserved and even strengthened.
In Venezuela, the current constitution has lasted longer than any other. This year we are celebrating 40 years of democracy without interruption. This is unprecedented because the last century was plagued by repeated *coups d'etat*, revolutions, and authoritarianism. We have achieved the continuity of the democratic system this century. We have proposed some reforms in the constitution – not to change it but to broaden it, to complement the representative democracy with a participative democracy, to give more access to civil society to help resolve the problems we face.


President Caldera: 'I knew the price we would have to pay for the economic stabilisation and recovery to produce satisfactory results' Photo: Adam Thomson

Q: What are the implications of the traditional parties losing importance?
A: It is worrisome, though I think the phenomena is not exclusive to Venezuela. Despite their unpopularity amongst the population, the political parties must continue to be the principal instrument to channel popular demands.

Q: Is the support for your government by political parties diminishing as the election campaign begins?
A: I was the founder of one of the strongest parties there has been this century; I was its secretary-general for 30 years. But in 1993 I understood that the country was facing problems to which the traditional parties had no answers, so I had to take the decision to run for office on my own. I took office without the support of any majority force but with a number of smaller political groups. The parties that give constant support to this government do not reach 30 per cent of the congressional vote. So one has to negotiate, compromise and search, but some important political groups have supported us in decisions that determined the future of this country. The Agenda Venezuela, for example, had wide spread support from the public and the political parties alike.

Q: Is there any danger of reforms becoming bogged down during election year?
A: I hope not. I am trying to convince the various political groups that, if they hope to govern, they must help us to hand over this country in a governable condition. A demagogic opposition now would harm any future government. I think that is a strong argument, and believe it is sufficiently convincing.

Q: What are the long-term implications of Venezuela's strengthening energy ties to the US?
A: Venezuela has become the principal supplier of oil to the US, and an important oil refiner as well. We are effectively the Latin American country with the largest investment in the US. These investments improve our sales and distribution channels in that country. We are also the sixth-largest consumer for the US, comparable to many a rich country. In a way, what the US pays us for our oil flows back to them through the considerable amount of vital goods we buy from them.

Q: Does it imply a convergence of foreign policy?
A: It invariably implies a necessity to harmonise [policies]. Of course every country has its own convictions, and sometimes important differences emerge that destroy the concept of sovereignty and personality of each nation's peoples. Globalisation is not an option, it is a fact. It requires us, the small developing countries to unite our economies and forces in order to have a more respected personality.

Q: Do the policies on economic integration of Venezuela and the US coincide?
A: We have been negotiating on a number of issues, on equal terms, of course, with the respect that each side deserves. A double tax treaty, for instance, is very important but implies a series of conditions that are vital to our national interests.
When our petrol was rejected on environmental grounds in the US, the World Trade Organisation, in one of its first decisions, reversed the discrimination and backed our position. Now we have the problem of the Orimulsion [boiler fuel], which is a technological achievement of Venezuela. It faces opposition in the state of Florida but is now being reconsidered. Yet all these difficulties must be resolved within friendly relations between countries that have common interests.

Q: Recent elections have been tainted by accusations of fraud. What are the prospects of profound political reform that could strengthen the process?
A: Every electoral system has its advantages and disadvantages. The process has worked quite well. There have been situations where the judges have called for a partial repetition of elections, never in entire regions but in certain areas or electoral boards. Efforts are under way to mechanise the vote count.

Economy gets back on track

Continued from Page 1

says that higher oil output at steady prices should help reduce economic volatility. However, there is widespread agreement that other measures will be needed. The government's proposed macroeconomic stabilisation fund, intended to keep some of the windfall gains outside the economy, is another proposal awaiting congressional approval.

The greatest challenge for the new government will be to rebuild the capacity of the state. Some 1.3m people are on the state payroll (though many do not even pretend to work). Because the wage settlement process has compressed differentials, there is huge competition for jobs at the bottom and none for those at the top. The result is a shortage of qualified senior public servants.

The development of a professional civil service, a capable teaching profession and proper health services are urgent issues. A successful social security reform should help start the rebuilding process, and a number of other projects, such as judicial reform, would also help ease popular discontent.

For although public demonstrations of discontent have subsided, there is no guarantee that this will be a permanent state. Growth may help ease hardship, but it sometimes brings to the surface latent tensions, as in 1992 when the economy was growing at double digit rates.

To stave off popular disaffection, Venezuela needs years of steady growth and a proper functioning state. The debate about how to achieve this has matured considerably in recent years. However, it remains to be seen whether Venezuela's politicians have sufficient foresight to carry through what Mr Caldera has reluctantly started.

● *Stephen Fidler is the FT's Latin America Editor*

THE ECONOMY • by Stephen Fidler

Volatile cycle on the up

Towns and cities beyond Caracas are now feeling the effects of boom conditions

After four recessionary years, Venezuela's depressed economy has returned to growth. The economic free-fall which followed the 1994 banking crisis that has cost the equivalent of 15 per cent of gross domestic product has been checked.

Venezuela's notoriously volatile business cycle is at last on the up. Asset prices are beginning to rise sharply from the floor to which they sank last year. The stock market has more than trebled in value, and office rents in central Caracas are rising.

On top of this, the opening since 1993 of Venezuela's oil sector to foreign investment is starting to percolate through the economy. As a result, boom conditions are emerging in soma parts of the country outside the capital.

Helped by foreign investment in the country's hugely competitive oil sector, some $5.8bn of foreign direct investment will enter the country this year, according to central bank estimates.

Growth of the economy will be 5 per cent this year, compared with a negative 1.6 per cent last year and higher than the government's official forecast of 4 per cent 1997, according to Luis Raúl Matos Azócar, the finance minister. The government is discussing a 4 per cent growth target for next year with the International Monetary Fund, says Mr Matos. This already looks a probable underestimate.

The flip side to the recovery is the likely difficulty in bringing down inflation. Mr Matos says inflation "can still be close to" its 35 per cent target next year (it was 103.2 per cent last year) and that e 15 per cent inflation target for next year is being discussed with the IMF. Not many in Caracas believe the government has much of a chance of getting close to the latter goal.

A number of factors militate against a rapid decline in inflation. Fiscal policy is too loose and monetary policy is hobbled by a series of difficult technical issues at the central bank, including the large debt owed to it by the government. As a result, the burden of combating inflation relies excessively on the exchange rate, now uaually calculated at between 10 and 20 per cent overvalued.

Antonio Casas, the central bank president, said this montb that "fiscal adjustment must be deepened and consolidated".

The IMF has similar concerns. It is talking with the government about a possible standby programme, though with $18.3bn in reserves at the end of September tbe government has no need of the money. These pre-occupatione exist despite an expected consolidated public sector surplus this year, following last year'e surplus equivalent to 7.3 per cent of GDP.

What is relevant in the fight against inflation, the IMF argues, is the government'e non-oil budget deficit. The fund wants this to be cut from 7 per cent of GDP to 6.5 per cent in the coming year, and favours an increase in domestic petrol prices. It is also concerned about the budgetary cost of this year's reform of the labour laws, whicb while widely viewed as beneficial on a microeconomic level, represent an addad fiscal burden. Government spending la some 10 per cent higher than targeted so far this year, the overshooting partly a consequence of overspending by the decentralised state governments and wage rises for public sector workers.

This is contribnting to a huge influx of liquidity into the economy, whicb bas brought about negative interest rates in real, inflation-adjusted terms.

Government spending financed by taxes paid by the state oil company, Petróleos de Venezuela (PDVSA), and apending by PDVSA itself in the domestic economy are both financed by foreign exchange earnings. Since the sbarp currency devaluation of 1995-96, more money has also been entering the country, attracted to the high nominal rates of interest – and not deterred by domestic inflation, which is irrelevant to dollar-based investors.

Tbe government bas proposed a number of measures in a bid to break the transmission of volatility to tbe economy, via fiscal policy, from the sbarp fluctuation in oil revenues.

Amoog the most important of these is the so-called macroeconomic stabilisation fund, an external account held outside the country into which oil revenues above certain preset levels would be paid – and used if oil revenues decreased unexpectedly. However, like many other government projects, this is held up in Congress, wbere tbe administration is in a minority. As an interim step, PDVSA will bold some windfall oil revenues in foreign currency instead of converting them into bolivars.

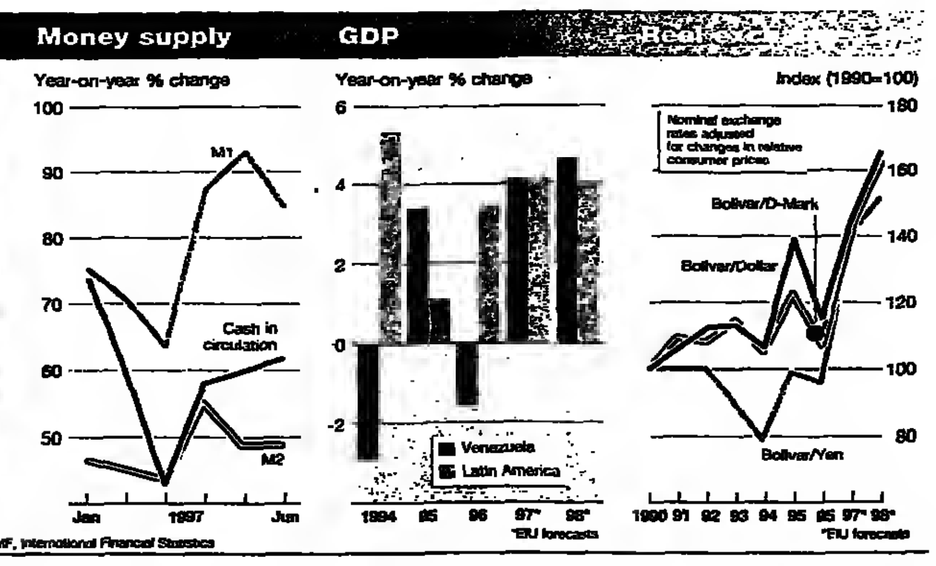
Tbe government and PDVSA argue that the new oil policy that concentrates on higher output will make the economy less sensitive to price fluctuations, but even if this is so, there is widespread agreement that stronger measures are needed. The government has sent to Congress, says Mr Matos, another proposed law which would belp reform the budget setting process along the lines of that in New Zealand or in Argentina. Its likelibood of passage seems low.

Ricardo Hausmann, tbe former Venezuelan planning minister and current chief economist of the InterAmerican Development Bank, argued in Caracas this month that a constitutional amendment was needed to stop governments spending oil revenues above a certain percentage of GDP in any one year. An independent fiscal agency should also be established to keep the budget process transparent.

Carlos Hernández Delfino, vice-president at the central bank, said a constitutional amendment migbt be too rigid and too narrowly focused. However, an organic law – which, like a constitutional amendment, requires a large majority to overturn – might be the right format.

Such proposals stand little chance of being passed soon, but they do illustrate tbe cbanging nature of the debate on how the Venezuelan economy sbould be managed to overcome the traditional volatility. Most of the old, unsatisfactory practices are still in force, bowever. The government has not done enough yet to banish the sharp swings in the Venezuelan business cycle.

Luis Raúl Matos Azócar, finance minister



Sources: Central Bank; VenEconomy; EIU, IMF, International Financial Statistics

DIVERSIFICATION • by Adam Thomson

Tourism offers good prospects

Dependence on oil over the years has led to many sectors being neglected

Francisco Crededlo is convinced that Venezuela's tourist industry is under-developed. As president of the Air and Sea Travel Guide to Venezuela, he is one of the country's most vigorous campaigners to diversify the economy away from oil.

"The idea is to make tourists aware that Venezuela can offer them more than just a beach," says Mr Crededio. He believes that by 2000 Venezuela can double the present number of tourist arrivals to 1.3m a year.

Tourism is one of many sectors Venezuela has neglected during years of heavy dependence on oil revenues. While petroleum has traditionally represented an engine of growth for oil-related sectors of the economy, the influx of petrodollars has exerted upward pressure on the local currency, eroding exporters' profits and making imports cheap.

The prospects for diversifying the economy are seen as mixed.

"The natural tendency as the petroleum sector grows is for a rising exchange rate," says Ramon Espinasa, chief economist at the state oil company, PDVSA. "That means that in the future Venezuela will not produce [all] the things it is producing now." Agriculture is seen as one of the most vulnerable sectors.

Venezuela'e non-traditional export eector – whicb includes textilee, toye and fruit – is also likely to suffer. Growth during the first half of this year has given way to a deterioration in exports during July and August.

However, Luis Raúl Matos Azócar, the finance minister, is convinced the country's non-traditional sector is viable. He says the government is working to limit the real appreciation of the currency and sees the opening of regional markets as an opportunity to increase sales. In addition, recent government measures have created tax incentives for exporters, he says.

Yet, in spite of government attempts to limit the appreciation of the currency, the Venezuelan bolivar is expected to strengthen by 10 per cent in real terms this year.

Since PDVSA in 1986 moved its strategy away from maintaining high oil prices towards concentrating on volume, the future of the country's non-oil sector has looked compromised.

"Venezuela is finally waking up to the fact that it is an oil-producing nation," says PDVSA'S Mr Espinasa. He argues that while the implication is a continued dependence on oil, increased production in the future will bring about an oil-related diversification.

In Venezuela's increasingly urban population – some 80 per cent of the country's 22m population now live in towns and cities – the service sector and non-tradable goods, especially construction, are likely to benefit.

"Over the next 10 years the construction sector will expand at an average 6 per cent a year," said Carlos Avellaneda, president of the Venezuelan Chamber of Construction, in a recent speech. The sector grew 14.7 per cent in the first half of this year.

Telecommunications is one of the most dynamic service sectors in the country at the moment.

BANKING • by Edward Luce

Rising from financial ashes

Rescue proved to be expensive, but much of the cost has now been recovered

Just three years after the collapse of the Venezuelan financial system, the country's banking sector is well on the road to recovery.

The bankruptcy of Banco Latino in 1994 triggered an implosion in the country's banking sector. The collapse of what was then Venezuela's second-largest bank pushed roughly one-third of the country's banks into insolvency.

Confidence in Venezuela's under-capitalised banking system dissolved almost overnight as depositors with the weakest banks rushed to close accounts.

The after-effects of the crisis are still very much in evidence. But in other respects Venezuela's banking sector has altered dramatically. "Venezuela's banking sector is now in a strong position to grow," says Michel Goguikian, president of Banco de Venezuela, the country's third-largest bank. "Most banks are well capitalised, and many can start the process with relatively clean balance sheets."

Getting from A to B, however, was a disruptive and expensive operation. Confronted with the choice of permitting large-scale bankruptcy or intervening to prop up the system, the administration of President Rafael Caldera opted for the latter.

The rescue operation launched in 1994 set the government back by more than $10bn – or almost 16 per cent of gross domestic product. Roughly one-third of the country's banks were nationalised, leaving the government with an enormous debt burden.

Much of the cost, however, has been recuperated through the privatisation of the leading banks in a process which bas delivered foreign control of a previously locally-dominated sector. Foreign control of the Venezuelan banking sector has risen to 60 per cent of total banking assets from less than 5 per cent in 1994.

"From being one of the most national banking systems in Latin America, Venezuela now has the most heavily foreign-controlled system in the Americas," says Jose Gonzales, senior Latin American equity analyst at ING Barings in New York. "Banking in Venezuela has suddenly become a completely different game."

Most prominent among the new foreign entrants are BBV and Santander, the leeding Spanish banks, which took control last December of Venezuala's largest and third largest banks respectively. Santander's $300m acquisition of Banco de Venezuela was swiftly followed by BBV taking e 40 per cent stake in Banco Provincial. Shortly afterwards, Infisa – a group of investors from Chile – took control of Banco Consolidedo, Venezuela's fourth-largest bank.

Of the country's top four banks, only Banco Mercantil remains in local hands, although even then J.P. Morgan, the US investment bank, has a 10 per cent stake.

Local analysts say the foreign takeover will provide a much-needed stimulus to modernise Venezuelan banking. "Nobody seriously opposes foreign majority ownership of Venezuelan banks," says Ricardo Penfold, head of research at Santander Investments in Caracas. "Foreign banks bring efficiencies, new technology and a more professional approach to banking."

Few, however, would dispute that it will take much time and effort to revamp Venezuela's antiquated banking sector. Mr Goguikian says that Banco de Venezuela is heavily overstaffed, with 35 employees per branch compared with just 10 per branch in Santander's Spanish network.

With 7,300 employees on an asset base of just $1bn, the bank is urgently addressing its costs. At the same time, however, the new management is investing $50m to upgrade the bank's information technology systems and has set up an internal "banking school" to improve employees' credit skills. The picture is much the same across the rest of the sector.

Oscar Garcia Mendoza, president of Banco Venezolano de Credito – the country's sixth-largest bank which is wholly-controlled by local shareholders – says the new entrants are also trying to put lending policy onto a more formal footing.

"Much of Venezuelan banking is based on character lending," says Mr Garcia. "Banks lend to companies which they know and trust without asking for any detailed financial stetements."

The result, says Mr Garcia, is the type of poor quality lending which led to the banking crisis in 1994. But Mr Garcia is sceptical of claims that Venezuela has once and for all buried its chequered banking past. "Bankers are always the same," be says. "Whan there's an upswing they fall over each other to attract new borrowers without asking too many questions."

On most indicators, Venezuela is now entering an upswing in its growth cycle. With 38 commercial banks and more than 100 savings institutions, the banking sector is competing ferociously for new business in the private sector. The competition is all the more fierce considering the low base from which it starts. Total lending as a proportion of GDP has grown by 143 per cent since August 1996. At just 9 per cent, however, the loan-to-GDP ratio is comfortably the lowest in Latin America.

The scramble for new business is accentuated by several factors. The almost complete erosion of landing portfolios over the past three years has left banks with little choice but to stock their balance sheets with securities issued by the central bank.

The paper – monetary stabilisation notes – was designed to mop up excess liquidity generated by buoyant oil revenues and to provide banks with the interest returns to keep them afloat during the recession.

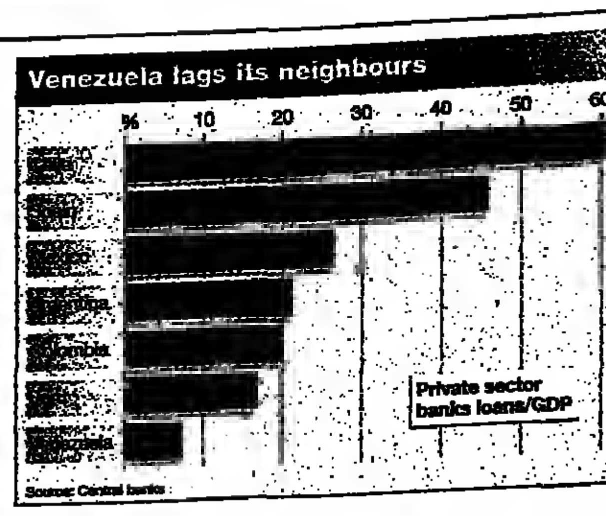
But the bills have proved enormously costly for the central bank to service. As a result, it is gradually reducing new issuance and encouraging banks to shift back into more conventional interest earnings. "We are planning to move towards a more sophisticated and sustainable market for paper in Venezuela," says Antonio Casas, governor of the central bank. "Banks do not need to rely on TEMs [titulos de estabilizacion monetaria] so heavily any more."

The hunt for new lending opportunities has been given added urgency by increases in the cost of banking. In addition to a 2 per cent tax on deposits (to replenish the government's balance sheet after the rescue operation), the reserve requirement on banks has been raised from 12 per cent to 17 per cent over the past three months. The central bank justified the increase as part of its battle to reduce inflation. The result, however, has been to step up the pressure on banks to win new customers.

Added to this, the spread between deposit rates and commercial lending rates has narrowed from 20 percentage points to around 7 percentage points in the past nine months. This trend – spurred by a resurgence in liquidity and tough competition for a relatively small but growing pool of private sector horrowers – has served as a reminder to banks that subsidised balance sheets are probably a thing of the past.

Finally, with the inflation rate expected to fall to 15 per cent by the end of 1998, banks are faced with the prospect of positive real interest rates for the first time in four years. This will deprive the banking system of the cheap credit it has relied upon since 1994. Something epproaching normal market conditions, in other words, is around the corner.

"We think that the banking sector will have to consolidate quite rapidly over the next few years," says Mr Gonzalez. "Those hanks which are most dependent on central bank paper are highly vulnerable," he adds. "Banks which can win the high-quality corporate borrowers are in the best position to benefit from the economic recovery."



THE STOCK MARKET • by Edward Luce

Booming but vulnerable

The Caracas exchange still has *much to do to* earn foreign confidence

Between April and June of this year the capitalisation of the Caracas stock exchange (CSE) leapt by 44 per cent in dollar terms, easily outstripping equity growth in the rest of Latin America.

The bull run, which followed a lacklustre first quarter when the ICB index dropped by almost 8 per cent, was underpinned by a resurgence in confidence in Venezuela's growth prospects after a bout of jitters earlier in the year.

Nevertheless, although Venezuela pulled off a similar feat in 1996 – posting growth of 136 per cent (the global record for the year) – the market is still vulnerable to a sudden reversal in sentiment. With a turnover of just $15m on a lively day, the exchange remains severely under-capitalised when compared with its Latin American counterparts.

Market capitalisation, at some $16bn, is just 18 per cent of gross domestic product, compared with well over 50 per cent in most emerging markets. Although the bourse has 89 listed stocks, most of them are barely traded and just a handful dominate the market.

No wonder that regional fund managers invest just 2 per cent of their portfolio funds in Venezuela compared with an average of 30 per cent in Mexico and around 15 per cent in Argentina.

Alejandro Salcedo, president of the CSE, concedes that the exchange has much ground to cover before it can boast of foreign confidence in its operations. Critics of the CSE reel off a litany of inadequacies, including delays in its settlement procedures. "We know of a number of foreign brokerages who have given up on Caracas until it has a better settlement system," said one analyst.

Mr Salcedo says that more than 90 per cent of transactions are settled within T-plus-5 (five business days) and the aim is to reduce settlement to T-plus-3 in the near future. In addition, the exchange in now fully automated and is investing in upgrading its recently-established central depositary fund.

"We would like a quicker settlement system, but it is getting more efficient and it is not deterring foreign brokerages from setting up here," says Mr Salcedo. The cost of a seat on the CSE reached a record $1.2m last year, while 10 foreign brokerages now have seats on the exchange, Mr Salcedo adds.

The CSE also plays down suggestions of widespread insider trading, in spite of the fact that Venezuela's securities and exchange commission has yet to undertake one successful prosecution (it is "under-staffed and under-budgeted", according to Mr Salcedo).

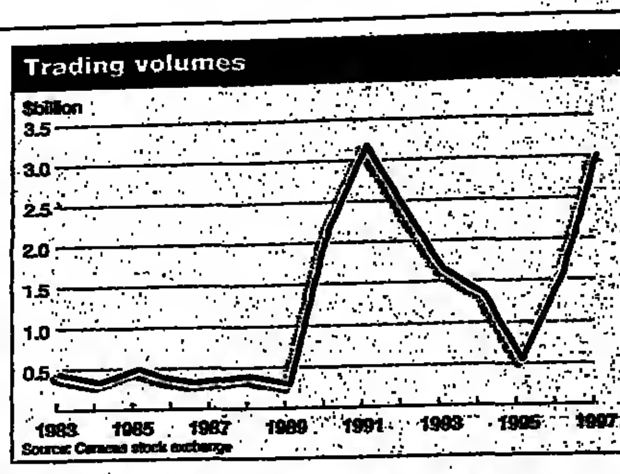
Exchange officials say there is a well-functioning surveillance department which regularly suspends trading if there has been an unusual price movement. In addition, listed companies are required to submit quarterly reports to the CSE and contract an annual audit from a recognised accountancy firm within 30 days of the shareholders' meeting.

Perhaps the most powerful complaint, however, is that the market lacks liquidity.

CSE officials say that liquidity will be enhanced by a much-awaited flurry of new listings, assuming the Venezuelan Congress enacts a series of privatisation bills now before it. In addition, hopes remain strong that Congress will pass a social security bill by early 1998 to set up private sector managed pension funds which would give a strong boost to Venezuela's paltry domestic savings rate.

Most of all this, however, hinges on the implementation of a series of reforms which are by no means guaranteed. Judging by the volatility of the stock market, which has only in the last two months surpassed the turnover volumes it reached at its peak in 1991, only the brave would suggest it has entered a less skittish phase in its history.

There is an equally strong case to be made that investors should remain cautious of Venezuela until they have seen whether it can deliver on the changes it has promised.



POLITICS • by Raymond Colitt

Stability based on long experience

President Caldera can take much of the credit for his country's current governability

The bullet holes that marked the presidential palace after the 1992 coup attempt have long disappeared, and with them the political instability that shook Venezuela's democracy, the longest uninterrupted democracy in South America.

The credit belongs largely to President Rafael Caldera, who had to break with many of his political allies to reach the presidency but could draw on 50 years of experience in consensus-building. His principal pillars of support in restoring governability and pacifying political passions were the military, the church, the social democratic Accion Democratica (AD) party and its close ally the national labour federation (CTV).

With the help of his son-in-law, Gen Ruben Rojas Parra, Mr Caldera has quietly cleansed the armed forces of any rebellious elements and granted them generous salaries and other privileges.

Mr Caldera also sought support in the enemy camp of AD, long-time rivals of the social Christian Copei party which Mr Caldera founded in 1946 and abandoned before the presidential race in 1993. In fact, Alfaro Ucero, the undisputed leader of AD, has more power than the president, says Reinhardt Wettmann, who heads the Latin American social science research institute (Ildis) in Caracas.

When Mr Caldera faced a fierce three-week-old medical sector strike, which forced even emergency services to shut down, he was forced to call on Mr Ucero to put down the stoppage.

The risk of a lame-duck government during the last year of the Caldera administration is real. Seeking to emerge from an internal power struggle and distinguish itself from the current government, the Copei party has noticeably stepped up its opposition.

Mr Caldera is aware that a surge in opposition could jeopardise reform during his last year in power. "I am trying to convince the various political groups that, if they hope to govern, they must help us to hand over this country in a governable condition," said Mr Caldera.

Although Venezuela boasts the region's longest continuous democracy, its electoral process is seriously flawed. "Political parties have penetrated our electoral institutions and manipulated election results," says Orlando Contreras Pulido, head of the House electoral commission. In the national elections of 1993 and 1995, the results in four and five of 20 states, respectively, were declared void as a result of alleged fraud.

According to a proposed electoral law before Congress, the national electoral council would no longer be made up of party members, and local electoral boards would be chosen randomly and not by appointment of the dominating parties. The casting and counting of votes would be automated.

Yet the legislative proposal, which in some cases directly undermines the interests of the very congressmen voting on it, has already been watered down before passing the lower house and now risks losing more bite in the Senate.

As political parties seek to maintain their power in the electoral process, they have lost credibility among the electorate. Polls indicate that only one-third of the voters favour traditional parties.

Irene Saez, a former Miss Universe and the current mayor of the Caracas district of Chacao, appears to be capturing most of the "anti-politician" vote. Some researchers say she leads the polls with 33.7 per cent of the vote, far ahead of Claudio Fermin, a possible AD candidate with 10.5 per cent.

Internally divided and undermined by the "independent vote", Copei has opened its doors to the former beauty queen. Yet, according to research by another company, in Caracas, Ms Saez has 56 per cent support as an independent candidate but only 41 per cent as a candidate of Copei.

Equally discredited and unable to put forward a candidate who could compete with Ms Saez, AD may well decide to use its extensive, vote-generating party machinery to focus on the congressional and gubernatorial races, thereby increasing its negotiating power, suggests political analyst Alfredo Keller.

Ironically, widespread despair arising from the collapse of the old model – the paternalistic state financed by oil revenue – may be the strongest argument for continuity. Even the hardliners today do not advocate a return to the populist, interventionist economic policies that failed utterly during the first two years of the Caldera administration. "Caldera fired the last shot of populism," says Augustin Berrio, deputy secretary-general of Copei.

Even within AD, which has more interest in defending the status quo, reformist elements are beginning to emerge, albeit tacitly. "We recognise the state is inefficient and unproductive, but we have to find an organised, structured way to reform it," says Aristides Hospedales, an AD congressman.

Thus, the next government may well continue along the reform path, although it is not clear at what speed. Given the wide spectrum of political forces, any government is unlikely to emerge with a clear majority in Congress.

PROFILE Teodoro Petkoff, planning minister

Guerrilla line to front line

Teodoro Petkoff, the 65-year-old unassuming, moustachioed planning minister who once fought the government as an underground leftist guerrilla, has been the key figure in implementing the market-oriented reforms adopted by the government in April of last year.

President Rafael Caldera called on Mr Petkoff – whom he pardoned and released from jail along with other rebels in 1969 during his first term in office – to help implement the unpopular belt tightening measures, which included massive rises in petroleum prices and in utility rates and taxes.

The choice of Mr Petkoff as salesman and front man for an IMF-backed reform programme was deliberate. Even though he had been a persistent critic of Mr Caldera for years, Mr Petkoff would not only win over crucial support from his leftist MAS party; his credibility with labour and leftist intellectuals was a key factor in forging the necessary consensus to push through the unpopular austerity measures.

"Petkoff was crucial in implementing reform because he has force and passion and is very articulate," says Humberto Calderon Berti, a Caracas-based consultant and possible presidential candidate.

Relying heavily on baseball terminology and popular jargon, Mr Petkoff took to the streets, university mess halls, senior citizens' associations and labour unions to pave the way for Agenda Venezuela, as the economic reform programme is called.

Mr Petkoff's image as an unconventional politician helped him overcome long-standing disbelief towards politicians and gave him extra credibility amongst the poor and marginalised. Dressed informally, he often shuns his ministry car and chauffeur and sets off to the barrios (slums) of Caracas to try to justify government austerity measures.

For many, such a job would have amounted to political suicide, and his detractors immediately suspected hidden political ambitions. Yet, following two failed attempts to reach the Miraflores presidential palace, Mr Petkoff emphatically denies any intention to run in next year's election. He has already served four terms in Congress.

Perhaps his most significant achievement was a breakthrough in the round-table talks between labour and industry, which led to an historic social security and labour reform. "Petkoff was the driving force in those talks," says Francisco Natera, president of the influential federation of industry and commerce, Fedecamaras.

The agreement, which made the labour market more flexible and reduced redundancy costs dramatically, was celebrated as the most important improvement of Venezuela's investment and operating climate in recent years.

When Mr Petkoff was temporarily replaced, for health reasons, at the talks, negotiations came to a standstill. They recovered momentum only when he returned after a month's absence.

He was also instrumental in convincing foreign investors that the government's about-face from populist, interventionist policies to market reform was for real.

Mr Petkoff has no problem in reconciling his leftist, militant past with his current advocacy of neo-liberal reforms. "I am a pragmatic socialist," he says. "What I'm interested in is solving the country's profound economic and social problems. At the time we thought the armed struggle would bring about the world of ideals we were looking for; now we realise it was a mistake."

As a young militant in the Communist party, Mr Petkoff engaged in sabotage acts against the state and spent a total of three years in prison, escaping twice. Disillusioned with communist dictatorships, Mr Petkoff and other comrades split from the Communist party and later co-founded the Movement to Socialism party (MAS).

Yet Mr Petkoff does not embrace market-oriented reform blindly. "The trickle-down effect may prove to be a fallacy," he says.

The minister has been a strong advocate of temporary welfare programmes. "They guaranteed the social stability during the past year and a half."

Venezuela has one of the worst income distributions in the region. The richest 10 per cent of the population earn nearly half of the national income, while the bottom 10 percent are left with 1.7 per cent of the country's wealth, he says. In the long-run, he admits, only a dramatic improvement in public services can provide a substantial improvement in the standard of living for most Venezuelans.

But with government opposition increasing as the presidential election draws nearer Mr Petkoff may find it increasingly difficult to forge grand political accords or implement state reform.

With much to show for but little recognition after 18 months in office, he does not regret having taken on the job. "I knew I wouldn't make any politically gains in the short-term," he says.

Raymond Colitt

Teodoro Petkoff: 'At the time we thought the armed struggle would bring about the world of ideals we were looking for' Photo: Reuters

OIL: FOREIGN INVESTMENT • by Edward Luce

Finding a balanced approach

Strategists want to see the sector put in a more stable economic framework

Venezuela has long had an ambivalent relationship with oil. The natural resource, which provides more than 70 per cent of the country'e export revenue and over 25 per cent of its gross domestic product, is viewed by many as more of a curse than a blessing.

Dependence on oil revenues has linked the fortunes of Venezuela'e economy to the rollercoaster of international oil prices and is thus associated as much with "bust" as it is with "boom". Placing the oil eector in a more stable economic framework is therefore the key objective of the country'a economic strategists.

Ramón Espinasa, chief economist of Petróleos de Veneznela (PDVSA), the world's third-largest oil producer after Saudi Aramco and NIOC of Iran and the third largest oil refiner after Exxon of the US and Royal Dutch Shell, believes the country is shedding its schizophrenic attitnda towards oil in favour of a more balanced approach.

Since 1991 the country has embraced the Apertura Petrolera – the opening of the oil sector to foreign participation. This, says Mr Espinasa, is a radical departure from the approach launched in 1976 when the oil industry was nationalised. It is also an implicit break with the original aims of Opec (of which Venezuela was a founding member) to maximise the international price of oil.

"In the past we viewed oil as a very finite resource, so the aim was to extract as many dollars out of it by aiming for the highest possible price," says Mr Espinasa. "Now we have turned that approach on its head. Our reserves are – for all intents and purposes – infinite. Our goal is, therefore, to maximise output."

The opening of the sector, which has brought more than 60 of the world's leading oil producing and exploration companies to Venezuela, has already borne fruit. From a nadir of 1.7m barrels per day (bpd) in 1985, the country's oil production has risen to over 3.5m bpd in 1997. The target is to double production again to over 7m bpd by 2007 in an expansion plan which would see Venezuela's production overtake the current output of Saudi Arabia, the world's largest producer.

According to PDVSA, which *will remain* a *state-controlled* company for the foreseeable future, the plan entails annual investment of over $7bn until 2007.

The strategy is relatively simple. About $45bn of the $73bn required will come from PDVSA's retained earnings and other aources of income, including debt. As such, tha Venezuelan government has gradually reduced the tax burden on PDVSA. The oil export tax, for example, has heen cut from 20 per cent to 16 per cent. The tax burden on PDVSA has fallen from 95 per cent of its gross profits in the late 1980s to 71 per cent in 1994. This is expected to be reduced further.

Second, PDVSA has set up a private investment vehicle which will take maximum 10 per cent stakes in the company's joint ventures and other operations. The funds, which include EPIC, the exploration and production investment company, may be listed on the Caracas stock exchange and are expected to provide as much as 10 per cent of the required investment. Apart from channelling resources, the mutual funds are designed to give the Venezuelan population a more tangible share in their main economic resource.

Third, and most significantly, PDVSA is opening up the country to the extensive participation of foreign oil companies. The opening, which has so far resulted in more than 40 projects, has enticed virtually all of the world's leading oil companies.

"To the extent that Venezuela wants to open up its oil sector, we want to be a part of it," said Bernard Wheelahan, president of Shell Venezuela in Caracas.

Shell, along with companies auch as Chevron, British Petroleum, Repsol, China National Petroleum Corp, and Total, have successfully bid for operating contracts to develop marginal oilfields in the light and medium-weight crude oil sector.

The contracts, which last for 20 years, are based on a return of capital investment which *is linked* to productivity. in addition, the licensees are paid an operating fee for extracting the oil. "The more efficient we are, the higher the return," said Mr Wheelahan.

So far 33 operating contracts have been awarded. In the third round of bidding last June, the winners paid a combined $2.1bn for the right to exploit the oilfields. PDVSA has retained control of the country's mainstream oil fields. "We are looking at the possibility of a fourth round of bidding in 1998," says Erwin Arrieta, minister of mines and energy.

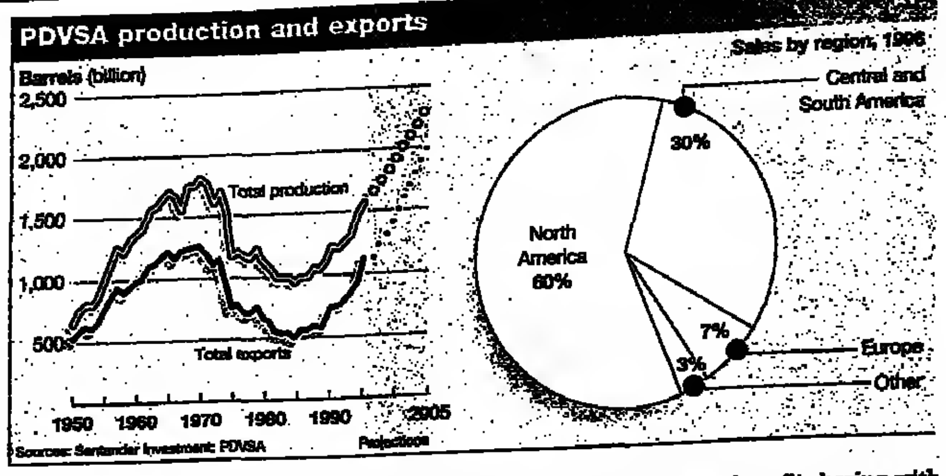
PDVSA is also offering "strategic associations" to companies which want to participate in the extraction of its heavy crude reserves in the fast-developing Orinoco belt region in the east of the country. The 1,200bn-barrel reservoir – of which an estimated 276bn barrels are recoverable – is probably the second-largest in tha world after the Caspian fields in central Asia.

Extraction of the reserves is relatively cheap at about $1.20 per barrel but expensive to refine at $4 to $5 per barrel. So far, five projects – each linked by pipeline to a refinery or upgrader in the Jose complex on the east coast – have been approved, with companies such as Mobil, Statoil, Texaco and Exxon participating. An estimated $15bn will be invested by 2006.

PDVSA is also raising investment throngh profit-sharing agreements with foreign and domestic companies. Winning bidders receive oil exploration rights which, if successful, must be opened up to 35 per cent participation by Corporacion Venezolana de Petróleo, a wholly-owned subsidiary of PDVSA. The normal 34 per cent income tax applies to projects which succeed. The exploration risk is wholly assumed by *the licensee.*

Execntives et PDVSA, which is estimated to have e net worth of over $100bn, have little doubt that the opening of the oil sector will pay dividends. But the company, which is also investing in expanding its overseas refining capacity in Germany, the US and elsewhere, stops short of envisaging its wholesale privatisation in the long term.

"For political and social reasons, PDVSA will remain in state hands," says Mr Espinasa. Howaver, this would not preclude PDVSA from opening itself up to increased profit-sharing with the Venezuelan public, he adda. "Tha ralationship between the Venezuelan public and PDVSA has always been arms-*length* because it has been intermediated by the state. But this will no longer be the case. We do not want to be an enclave separate from the Venezuelan economy."



Sources: Santander Investment; PDVSA

PDVSA AND THE ECONOMY • by Stephen Fidler

A rare case of well-oiled efficiency

Divisions exist over the pace of change required at the state oil company

Whatever else Venezuela's political leaders have done over recent years, they have at least had the good sense not to kill the goose that lays the golden eggs. In a state where most government functions are at an advanced stage of deterioration, the state oil company Petróleos de Venezuela (PDVSA) is a beacon of efficiency and probity.

By the lights of nationalised oil companies elsewhere in Latin America, PDVSA stands alone. International oilmen who deal with it say it may not be as efficient as the world's big privately-owned oil companies, but that it demonstrates remarkable professionalism. In a country where government is so often associated with corruption, the state oil company is remarkably free of it.

One reason for this is that the company, created with the nationalisation of 14 foreign-owned companies in 1976, inherited from its principal former owners – Shell and Exxon – two strong, if separate, corporate cultures. These cultures have proved stubborn enough to resist any tendency to incorporate the company into the rest of the government.

Yet the opening of the oil sector to private capital that has occurred since 1993 represents a huge management challenge to the organisation. To deal with it, top management has announced a sweeping reorganisation that will merge its three operating subsidiaries into one. While that in the long run may be necessary to manage the challenge of producing 7m barrels per day by 2007, much of it in co-operation with private companies, in the immediate future it will complicate it. Oilmen report some confusion in the fields about the reorganisation.

Humberto Calderón Berti, a former oil minister, consultant and current potential presidential candidate, says that while ha agrees with the opening, the company has too many things going on at the same time.

"The effort has to be very big financially and operationally," he says. "If we want to use the expansion of the oil sector for the maximum benefit to the economy, a certain graduality is advisable. We have to slow down to allow national companies to be involved as much as possible."

However, Luis Giusti, the PDVSA president, rejects the criticism. "There is no question in my mind that this company has to reorganise itself," he says. "You have to do this fast, because if you drag your feet you are not going to succeed."

The reorganisation was already yielding benefits in a more efficient and rational use of resources than was possible under the old structure, he says. The reorganisation was expected to add $12bn in net present value terms to the company, equivalent to one-third of the company's medium-term investment programme in the oil sector, and almost a quarter of the overall programma.

He says the main concerns were to ensure the continuity of operations during the transition. The other was to avoid the politicisation of the organisation.

For if the company is important now – the oil sector accounted for 26 per cent of GDP last year and 78 per cent of exports – it will become even more central to the Venezuelan economy if oil volumes more than double, as is planned.

This has raised questions about whether an economy which already booms and busts with fluctuations in oil prices will become even more erratic with higher volumes. Ramón Espinasa, PDVSA's chief economist, argues to the contrary.

"The economy as a whole will be much more stable with stable prices. We are basing our programme on growing volumes with steady prices," he says.

"This cycle is different to the 1970s. The upward spikes were short-lived because they were price cycles. We are talking about volume cycles now which are very long lasting. The increase in revenues will be gradual and the quality of those revenues different."

This raises in turn the question of how Venezuela will be able to ensure steady prices, and the extent to which its policies will be compatible with those of its partners within the Organisation of Petroleum Exporting Countries (Opec).

Mr Espinasa accepts that a new institutional relationship between the company and the state will have to be devised. According to his projections, fiscal revenues from oil will double over the next decade even at steady nominal oil prices. This explained the importance of tha macroeconomic stabilisation fund now before tha Venezuelan senate into which excess oil revenues can be channelled, thereby avoiding their monetisation into the economy.

Another important issue is the likely appreciation of the real exchange rate brought about by rising oil production, and the impact of this on the economy.

The decision to go for growth in oil will also require changes in the relationship between the oil sector and Venezuelan society. In the past, this relationship was always intermediated by the government through taxes, encouraging rent seeking behaviour from society at all levels. Since 1991, taxes have been reduced.

PDVSA now has 160 private partners, many of them national, in various projects. It has also begun a programme to promote the participation of Venezuelan investors. The Association for the Development of Oil Industry Investment (Sofip) was created in 1995 and is developing a variety of instruments aimed at encouraging individual Venezuelans to invest in oil projects.

"We have to change the link between oil and society. For decades the link was purely fiscal and oil had no apparent link to the country... but we have been changing the state oil activity into a national activity. We have managed to privatise all this activity," says Mr Giusti.

هكذا من الأصل

MINING • by Adam Thomson

A wind of change is blowing

There are some encouraging signs that new life is being breathed into the sector

In August, Placer Dome began development of what will be the largest gold mining operation in Venezuela's history. The Canada-based company was one of several foreign concerns which received environmental licences to exploit the country's rich subsoil.

President Rafael Caldera's administration is hoping the renewed activity will breathe life into a sector which for decades has taken a back seat to oil. Complicated and lengthy processes for obtaining operating and environmental permits have for years frustrated attempts to stimulate the sector.

But now the government is trying to change the situation. A package of legislation currently before Congress aims to reactivate mining, making it attractive – and accessible – to private capital.

The central plank of the legislation consists of streamlining the existing maze of bureaucracy to make foreign investment easier and quicker. There is also an initiative to create a mining superintendency to co-ordinate and regulate the industry.

"If we manage to push through all the things we have planned, mining could represent at least 5 per cent of GDP in the medium-term," says Angel Franco, the energy and mines ministry's hydrocarbons director. That compares with only 1 per cent at the moment.

There is concern, however, that the proposal could face delays in a Congress which has a heavy business programme. Several key debates – including next year's budget approval – could push the mining legislation to the back of the queue.

Strong opposition on environmental grounds could also hold up its passage. Mr Caldera's administration has not impressed environmental lobbyists at home or abroad. There are fears that, in a Congress where the government is in a minority, the opposition parties will use the environmental platform to win support ahead of next year's elections.

The sector is expanding, however, in spite of the delays. The state's industrial and mining company, Corporacion Venezolana de Guayana (CVG), recently announced a concession programme to explore vast tracts of land in south-east Bolivar and Delta Amacuro states for gold and diamonds. Under the scheme, private companies invest risk capital to explore blocks of 5,000 hectares each and then enter into partnership with CVG to develop the commercial phase of the operation.

Foreign companies have received other positive signs from the government. Early this year the administration passed a measure under which foreign companies embarking on new investments would be exempt from paying 16.5 per cent value added tax during the first five years of pre-production activities.

A recent executive decree regulates land use of important areas with mining potential. The decree is aimed primarily at combating the illegal mining carried out by thousands of individuals without permits or environmental licences.

The most encouraging sign is the recent issue of a number of environmental licences to large-scale mining projects.

Inauguration of the Placer Dome/CVG gold mine at Las Cristinas Photo Raymond Cole

At Las Cristinas mine, 750km south-east of Caracas, Placer Dome has just revised its estimate of total gold reserves to 11.8m ounces.

The company, together with its partner, CVG, estimates the development cost of the site to be $600m. The mine is expected to produce an average of 450,000 ounces a year for more than 14 years, at an average cash production cost of about $200 per ounce.

Minera Loma de Niquel, a subsidiary of Minorco, recently concluded a funding arrangement to allow the company to develop a significant nickel deposit, containing 34m tons of recoverable reserves. The company is estimating an investment of $450m and expects production to begin in the first quarter of 2000.

Geologists say that Venezuela's Precambrian Guyana Shield contains what are probably the richest deposits of gold and diamonds in the region. With the Las Cristinas mine, combined with the recent opening of the gold and diamond rich Imataca Forest Reserve, CVG aims to boost national gold production from its current official 10 tons a year to 25 tons within five years and to 50 tons in 15 years.

Iron ore and coal prospects are also good. The energy and mines ministry estimates total coal reserves – including those in the probable and possible categories – at about 10.2bn tonnes. Measured reserves total 576m tonnes. Production last year totalled 4.3m tonnes, and the ministry expect this to reach 8m tonnes annually by 2000.

The country's mining sector still represents higher risk than Venezuela's recently-liberalised petroleum sector, however. Foreign companies say there is little geological information available, and indications of total reserves are sketchy.

Even so, the risk has not prevented foreigners from moving in. "Companies may still face delays in obtaining licences," says Pedro Tinoco, president of the Venezuelan Mining Chamber (Camiven), but they are prepared to wait. "The bottom line is mining potential," he says, "and Venezuela has a lot of that."

COMMERCE AND BORDER RELATIONS • by Adam Thomson

Talks on free trade are gathering pace

Tariff barriers are being dismantled as Caracas shows its intent to develop links

When Venezuela suspended negotiations with the Mercosur – the four-nation South American trading block – in favour of reaching an agreement with its southern neighbours through the Andean Community, it sent a clear signal to the region that free trade was high on President Rafael Caldera's agenda.

Tariffs are being dismantled in the Americas, and Venezuela is now co-signatory to a growing number of free trade agreements throughout the region. Negotiations are under way with the Caribbean trading block Caricom, and the government is developing stronger trade links with Costa Rica.

Venezuela, like its neighbours, is working towards a 34-nation Free Trade Area for the Americas (Alca), which proposes the development of tariff-free commerce between members by 2005. "We have already made significant advances," says Miguel Burelli Rivas, Venezuela's foreign minister. "By 2005 we will be one single area of free trade."

Trade analysts say the immediate test for Alca is the outcome of talks between Mercosur and the rejuvenated Andean Community, which includes Venezuela.

Freddy Rojas Parra, Venezuela's trade and commerce minister, is confident the two groups will reach an agreement before the end of this year. He says the nine countries involved have already exchanged lists of products to be included in any agreement. Remaining is the treatment of a number of sensitive areas such as agriculture. "Now that we have concrete lists to negotiate, progress will be quick," he said.

An agreement with Mercosur – comprising Brazil, Uruguay, Paraguay and Argentine – is expected to stimulate Venezuela's still small trade of around $1.5bn. The only significant trading partner among them at present is Brazil, which accounts for 3 per cent of Venezuela's exports and provided 4.2 per cent of its imports in 1996.

Venezuela's total exports last year amounted to $22.8bn, up from $18.6bn in 1995 as a result of high oil prices. Imports in 1996 fell 15.6 per cent to $9.1bn. The trade and commerce ministry says the fall was mainly the result of freeing foreign exchange controls.

While Venezuela's natural role in the wider region is seen as a provider of petroleum and energy, the government has tried to promote the country's non-traditional exports, which include some metals, textiles, shoe manufacture and specialised agricultural products.

During the first half of this year, the non-traditional sector exported goods worth $1.9bn, up 10.6 per cent on the comparable period last year. The goal is to reach $6bn a year in the medium-term, says Mr Rojas.

But with Venezuela's state oil company, PDVSA, planning to double oil production by 2006, experts fear the non-traditional sector may be hit by a strengthening local currency.

But as the region's trade barriers come down, Venezuela's role as a regional supplier of energy and petroleum is becoming apparent. A bilateral free trade agreement with Brazil, signed in 1994, is providing Venezuela with a massive potential market in Brazil's remote northern frontier. The Caldera administration plans to triple crude oil exports to Brazil to 450,000 barrels per day by 2006.

Venezuela is also developing electricity exports to Brazil's Roraima state. The Venezuelan state's Electrificacion del Caroni (Edelca) has signed a contract to supply Brazil's Electronorte power company with up to 200MW of electricity. As part of the deal, Electronorte will pay Edelca $80m to construct a 400-km power line to carry the electricity to the border.

Venezuela's abundance of petroleum has now made it the largest oil supplier to the US market. President Bill Clinton confirmed Venezuela's growing importance to the US this month when he belatedly included a visit to the country on his tour of South America.

"The US now recognises that no other oil producer is as reliable or as loyal as Venezuela," says Mr Burelli Rivas. Trade links between the two countries have improved significantly since last year.

Trade with Venezuela's neighbour, Colombia, has also taken off since the two signed the G-3 free trade agreement, together with Mexico. Although the agreement is less than three years old, Colombia has now surpassed the US market as the primary destination of Venezuela's non-traditional exports.

However, while trade between the two countries prospers there is mounting diplomatic friction stemming from border incidents.

As the Caldera administration strives to open regional markets, some sectors of the economy are concerned they will not be able to compete with imports. The country's farming lobby is highly critical of greater regional integration, arguing that national production will be outstripped by cheap products from neighbouring countries.

So far, it has not been the case. Last year, Venezuela exported goods worth $1.7bn to its Andean neighbours, of which $1.3bn were non-oil exports. The Andean Community, by contrast, exported only $814m of goods to Venezuela.

PRIVATISATIONS • by Edward Luce

Pre-poll limbo hits sell-offs

Sidor steel group is expected to attract plenty of overseas interest - and a $4bn tag

The Venezuelan public is having to get used to the unthinkable. Several times this year power blackouts have plunged much of the country into darkness. *Despite being the largest oil* producer in the Americas and a surplus producer of electricity, industry executives say the public might have to tolerate this inconvenience for some time.

"The Venezuelan power sector is suffering from chronic under-investment," said Alberto Poletto, president of the Venezuelan Investment Fund, which is in charge of the country's privatisation programme. "The sooner we can put the electricity sector into private hands the better for everybody."

Mr Poletto admits thet electricity privatisation is by no means a done deal. Like much of the remainder of the government's privatisation programme, legislation to modernise the country's electricity sector appears to have been put on ice by the Venezuelan Congress.

With just 15 months to go before congressional and presidential elections, politicians are shrinking from taking measures which could dent their electoral appeal. Legislation which has not been enacted by December is unlikely to go through before 1999. Congress convenes for just three months in 1998.

Other bills which are in danger of stalling incinde approval of the privatisation of the state's aluminium holdings, the sale of Venezuela's largest steel company, and the liberalisation of the country's growing petrochemical sector which is badly in need of more foreign capital.

Enactment of these bills would complete the government's privatisation agenda, which has included the 40 per cent initial public offering of CANTV, the telephone monopoly, which raised $1bn last November, and the privatisation of much of the country's banking sector the following month.

Despite its impressive track record, some believe the government is losing the political will to push the remainder of its privatisation agenda onto the statute books. "President Caldera is still not convinced in his heart of the benefits of privatisation," said Humberto Calderon Berti, e former oil minister and possible presidential contender. "The government has allowed the process to slow down."

However, analysts believe there is still a probability that the sale of Sidor, the state steel company, will go ahead before the end of the year. The sell-off, which – including its separate steel tube facility – is expected to raise up to $4bn, making it the country's largest to date, is considered less politically troublesome than others before Congress. "The privatisation of Sidor is popular with the Venezuelan public," said Roger Silver at Deutsche Morgan Grenfell in Caracas.

As the last of the main steel privatisations in Latin America, Sidor has already attracted 11 interestsd bidders, including Ispat, the Indian steel group, and a South American group comprising Siderar (owned by the Argentinian group Techint), Usiminas and CSN from Brazila, and Sivensa, Venezuela's largest private sector steel company.

Onca Congress has approved the sale, the state will announce the base price *and* give interested parties two months to submit bids. The union which represents the company's 12,000 employees, will maintain a 20 per cent stake in the company. Majority foreign control is permitted.

Steel's relative distance from the day-to-day concerns of ordinary consumers means the privatisation is unlikely to generate much popular opposition. The same cannot be said for electricity. Erwin Arrieta, minister for mines and energy, says that congressional opposition to electricity privatisation is based on fear of a popular backlash over higher electricity tariffs.

Companies such as Cadafe, the country's largest electricity company – which made a loss of over $500m in 1996 – have been unable to maintain their distribution networks because of lack of capital. Tariff rates have failed to keep track of inflation for several years, and an estimated 40 per cent of electricity outside of Caracas is lost through theft and leakage.

"I say to congressmen, 'if you want to reduce prices further maybe we can all light candles'," said Mr Arrieta. "Ultimately, if we want reliable electricity we have to pay for it."

Industry executives, however, are pessimistic about the chances of pushing through a bill to revamp the sector before the elections.

The bill, which would create an independent regulator of the sector and result in the phasing out of electricity cross-subsidies, would set a framework for the privatisation of most of Venezuela's transmission and distribution utilities including Cadafe, Enelbar, and Enelven-Enslco. Privatisation could still go ahead without tha framework law but analysts believe foreign companies would submit much lower bids in the absence of a proper regulatory environment.

Francisco Aguerrevere, president of Electricidad de Caracas, the country's largest privately-owned electricity company, is pessimistic about the chances of a workable regulatory system being in place before 1999. Earlier this month, Mr Aguerrevere told shareholders that the company would step up the pace of its diversification drive to further reduce its exposure to the electricity sector.

The company's bitterness about the situation is compounded by the fact that the government is over $50m behind in settling its bills and will not take into account foregone interest when it finally settles the arrears. "If you look at the history of Venezuela you will see that private companies cannot rely on the government's track record," said Mr Aguerrevere. "We must have a legal framework in place for a rational pricing system. Presidential decrees are not enough."

Whether the bill goes through or not, electricity privatisation is likely to start in the near future with the sale of Nueva Esparta, which supplies electricity to the island of Margarita. Although it is small in scale, the transaction would be viewed as symbolic of the government's commitment to private ownership of the sector.

Elsewhere, few place any hopes on Congress approving the sell-off of the government's aluminium concerns before 1999. Unlike the remainder of the government's privatisation programme, there is little sign of consensus on the need to sell the state's aluminium holdings.

Opponents complain that – unlike in the steel and electricity sectors – the privatised aluminium and bauxite mining group would face no obvious domestic competition. Others say that aluminium is too much of a cash cow for congressmen to let go of it. "There are a lot of interests in Congress which are financed by aluminium," said Mr Calderon. "I very much doubt it will be privetised in the near future."

Privatisation of Alcasa aluminium may be stalled Photo: Yana Marull

THE PUBLIC SECTOR • by Raymond Colitt

Reform must travel a twisting road

All around there is evidence of decaying offices packed with too many workers

Doing business in Venezuela requires more red tape and implies more legal insecurity than in most other countries in Latin America. According to a recent survey conducted by the public/private investment promotion agency Conapri, a corrupt and inefficient state sector, particularly the judiciary, is the leading concern of investors in the country.

"One of the weak points of our democratic state is undoubtedly the jndiciary, which has deteriorated over the years," says President Rafael Caldera.

The Venezuelan pnblic sector employs 1.3m people, or one-sixth of tha country's workforce. In downtown Caracas, the decaying public offices, packed with lowly-paid employees are the most visible sign of a state that is crumbling.

Public services are often available only to those with clout or money. The most striking illustration of that came earlier this year when the Colombian drug lord Justo Pastor Perafan presented a legal Venezuelan identity card when he was arrested. Most Venezuelans queus for days in the hope of receiving their identity papers, while many have been unable to leave the country because officials have run out of passports.

A proposal to revamp the office of identification was shot down by critics only months ago, allegedly as a result of budget constraints and fraud.

Basic public services, from health to justice and education, are in such a poor state that a report by the controller-general said "the state is dissolving into chaos and inefficiency".

Foelled by decades of seemingly endless oil revenue, the public sector in Venezuela grew larger and more convoluted than elsewhere in Latin America. Yet with the collapse of the oil price and the onset of the debt crisis, the flow of petrodollars slowed to a trickle, leaving little more than an empty maze of bureaucracy.

According to a study carried out by the planning ministry, the social security institute (IVSS), for instance, could operate with only 7,000 to 10,000 of the 55,000 workers on its payroll. The same studied indicated that a quarter of the physicians were charging the IVSS for an average of 33 hours of work per day!

As a result of the virtual collapse of the system, many branches of the public sector

> 'There is nobody in this country who is opposed to overhauling the judiciary'

– including teachers, the military, and the state oil company PDVSA – have created parallel social security systems.

Widespread discontent with poor public services provides the government with ammunition to attack corruption and inefficiency. "There is nobody in this country who is opposed to overhauling the judiciary," says Humberto Calderon Berti, e former energy minister and possible presidential candidate.

But the government has made little progress. "We did not reform the state to the extent we would like," says President Caldera, underlining the social cost of laying off workers, which in Venezuela also implies immense financial costs.

Mr Caldera admits to lacking the support to tackle the powerful unions. "State reform is difficult because it depends not only on the executive but also on the legislature, judiciary and the unions, which in Venezuela are *important factors*."

Teodoro Petkoff, the planning minister, says: "A dramatic reduction of the public sector would cause colossal political and social chaos." With unemployment running at 12 per cent, according to official figures, large-scale job losses are not feasible, he says.

The public sector *unions*, who take all the workforce under their wing and are backed by political parties, wield tremendous power. As a result of stiff opposition from entrenched bureaucrats and their political allies, the government has had to rein in its target of cutting 80,000 jobs over three years. Only 17,000 – 1.3 per cent – public sector employees have so far lost their jobs.

"Only a massive mobilisation of public opinion can overcome that kind of opposition," says Mr Petkoff, who faced the staunch opposition of unions and political parties first-hand at the negotiating table.

In real terms, the government's current expenditure has increased 20 per cent in 1997. While the central government payroll has decreased slightly, new jobs have been created in local and regional governments, resulting in a net increase. The bulk of the public sector payroll is in the ministries of health and education.

Critics say the minority government, which relies on support of the populist Accion Democratica party, lacks the wherewithal to push reform.

"There is no political will to restructure the public sector," says Aurelio Concheso, director of the influential federation of industry and commerce, Fedecamaras. In an election year it will be even more difficult for the government to advance with its modest state reform agenda, he says.